

**New Issue**

**Credit Enhanced Rating: S&P Global Ratings "AAA"**  
**Underlying Rating: S&P Global Ratings "A+"**

**ADDENDUM DATED JANUARY 18, 2024**  
**TO PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 11, 2024**

**INDEPENDENT SCHOOL DISTRICT NO. 656**  
**(FARIBAULT PUBLIC SCHOOLS), MINNESOTA**  
(Rice and Goodhue Counties)

**\$10,770,000\* GENERAL OBLIGATION FACILITIES MAINTENANCE**  
**BONDS, SERIES 2024A**

On the cover and in the Rating section, the rating has been updated to reflect the assigned ratings. The Form of Legal Opinion has been included in Appendix B. Following is the revised Preliminary Official Statement.

## PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 11, 2024

*In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds may, however, be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code) and is included in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions. See "TAX CONSIDERATIONS" herein.*

### New Issue

**Credit Enhanced Rating: S&P Global Ratings "AAA"**  
**Underlying Rating: S&P Global Ratings "A+"**

### INDEPENDENT SCHOOL DISTRICT NO. 656 (FARIBAULT PUBLIC SCHOOLS), MINNESOTA (Rice and Goodhue Counties)

### \$10,770,000\* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2024A

**PROPOSAL OPENING:** January 22, 2024, 9:30 A.M., C.T.

**CONSIDERATION:** January 22, 2024, 5:30 P.M., C.T.

**PURPOSE/AUTHORITY/SECURITY:** The \$10,770,000\* General Obligation Facilities Maintenance Bonds, Series 2024A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and Section 123B.595, as amended, by Independent School District No. 656 (Faribault Public Schools), Minnesota (the "District"), to provide funds for facility maintenance projects included in the District's ten-year facility plan approved by the Commissioner of Education. The Bonds will be general obligations of the District for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota.

**DATE OF BONDS:** February 15, 2024

**MATURITY:** February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2025	\$1,700,000	2027	\$1,815,000	2029	\$2,090,000
2026	1,710,000	2028	1,995,000	2030	1,460,000

**\*MATURITY ADJUSTMENTS:** The District reserves the right to decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

**TERM BONDS:** See "Term Bond Option" herein.

**INTEREST:** August 1, 2024 and semiannually thereafter.

### OPTIONAL

**REDEMPTION:** The Bonds are being offered without option of prior optional redemption.

**MINIMUM PROPOSAL:** \$10,770,000.

**GOOD FAITH DEPOSIT:** A good faith deposit in the amount of \$215,400 shall be made by the winning bidder by wire transfer of funds.

**PAYING AGENT:** Bond Trust Services Corporation.

**BOND COUNSEL:** Dorsey & Whitney LLP.

**MUNICIPAL ADVISOR:** Ehlers and Associates, Inc.

**BOOK-ENTRY-ONLY:** See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.

## REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the District and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the District, is contingent upon the delivery of the Bonds.

## COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

**Preliminary Official Statement:** This Preliminary Official Statement was prepared for the District for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

**Review Period:** This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers and Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

**Final Official Statement:** Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

**Continuing Disclosure:** Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the District is required to comply with the Rule.

## CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the District nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the District which indicates that the District does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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## **FARIBAULT PUBLIC SCHOOLS SCHOOL BOARD**

		<u>Term Expires</u>
Chad Wolff	Board Chair	January 2027
John Bellingham	Vice Chair	January 2027
Casie Steeves	Clerk	January 2025
Jerry Robicheau	Treasurer	January 2025
Lynda Boudreau	Member	January 2027
Linda Moore	Member	January 2027
Richard Olson	Member	January 2025

## **ADMINISTRATION**

Jamie Bente, Superintendent of Schools  
Scott Gerdes, Director of Finance and Operations

## **PROFESSIONAL SERVICES**

Dorsey & Whitney LLP, Bond Counsel, Minneapolis, Minnesota  
Ehlers and Associates, Inc., Municipal Advisors, Roseville, Minnesota  
*(Other office located in Waukesha, Wisconsin)*

# INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 656 (Faribault Public Schools), Minnesota (the "District") and the issuance of its \$10,770,000\* General Obligation Facilities Maintenance Bonds, Series 2024A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the School Board on January 22, 2024.

Inquiries may be directed to Ehlers and Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the District's municipal advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at [www.ehlers-inc.com](http://www.ehlers-inc.com) by connecting to the Bond Sales link and following the directions at the top of the site.

## THE BONDS

### GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of February 15, 2024. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2024, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The District has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

\*Preliminary, subject to change.

### OPTIONAL REDEMPTION

The Bonds are being offered without the option of prior optional redemption.

**AUTHORITY; PURPOSE**

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and Section 123B.595, as amended, by the District, to provide funds for indoor air quality projects included in the District's ten-year facility plan of the District approved by the Commissioner of Education.

**ESTIMATED SOURCES AND USES\***

<b>Sources</b>		
Par Amount of Bonds	\$10,770,000	
Reoffering Premium	<u>471,334</u>	
<b>Total Sources</b>		<b>\$11,241,334</b>
<b>Uses</b>		
Total Underwriter's Discount (0.800%)	\$86,160	
Costs of Issuance	94,439	
Deposit to Construction Fund	<u>11,060,735</u>	
<b>Total Uses</b>		<b>\$11,241,334</b>

\*Preliminary, subject to change.

**SECURITY**

The Bonds will be general obligations of the District to which its full faith and credit and taxing powers are pledged. In accordance with Minnesota Statutes, the District will levy each year an amount not less than 105% of the debt service requirements on the Bonds, less estimated collections of other revenues pledged for payments on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the District is required to levy additional taxes upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

**RATING**

The District will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a credit enhanced rating from S&P Global Ratings ("S&P"). S&P has a policy which assigns a rating of "AAA" to issuers participating in the MNCEP. The "AAA" rating is based on the State of Minnesota's current "AAA" rating from S&P. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District received an "A+" underlying rating from S&P on this issue. Such rating, if any, reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the District nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

## **STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS**

By resolution adopted for this issue on April 24, 2023 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, as amended, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issue remain outstanding.

Under the State Payment Law, if the District believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Commissioner of Education as soon as possible, but not less than 15 working days prior to the due date (which notice is to specify certain information) that it intends to exercise the provisions of the Law to guarantee payment of the principal and interest when due. The District also covenants in the Resolution to deposit with the Paying Agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of the payment.

The Law also requires the Paying Agent for this issue to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal and interest on these obligations, or if, on the day two business days prior to the payment date, there are insufficient funds to make the payment or deposit with the Paying Agent.

The Law also requires, after receipt of a notice which requests a payment pursuant to the Law, after consultation with the Paying Agent and District, and after verifying the accuracy of the information provided, the Commissioner of Education shall notify the Commissioner of Management and Budget of the potential default. The State Payment Law provides that "upon receipt of this notice . . . the commissioner of management and budget shall issue a payment and authorize the commissioner of education to pay to the paying agent for the debt obligation the specified amount on or before the date due. The amounts needed for the purposes of this subdivision are annually appropriated to the [Department of Education] from the state general fund."

The Law requires that all amounts paid by the State on behalf of any school district are required to be repaid by the district to the State with interest, either via a reduction in State aid payable to the district, or through the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

In its Official Statement dated August 1, 2023, for General Obligation State Bonds, Series 2023A, 2023B, 2023C, 2023D and 2023E, the State of Minnesota disclosed the following information about the State Credit Enhancement Program for School Districts:

"As of June 30, 2023, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2050, is approximately \$17,500,000,000. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of June 30, 2023, is currently estimated at \$2,700,000,000, with the maximum amount of principal and interest payable in any one month being \$1,060,000,000. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.



The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

## **CONTINUING DISCLOSURE**

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the District shall agree to provide certain information to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system, or any system that may be prescribed in the future.

In the Award Resolution, the District will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the District are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

A failure by the District to comply with any Disclosure Undertaking will not constitute an event of default on the Bonds. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

In the previous five years, the District believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The District has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the District.

## **LEGAL OPINION**

An opinion in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP ("Bond Counsel"), Minneapolis, Minnesota, bond counsel to the District.

## **TAX CONSIDERATIONS**

The following is a summary of certain U.S. federal and Minnesota income tax considerations relating to the purchase, ownership, and disposition of the Bonds. This summary is based on the U.S. Internal Revenue Code of 1986 (the "Code") and the Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service (the "IRS"), all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Any such change could adversely affect the matters discussed below, including the tax exemption of interest on the Bonds. The District has not sought and will not seek any rulings from the IRS regarding the matters discussed below, and there can be no assurance the IRS or a court will not take a contrary position regarding these matters.

**Prospective purchasers of Bonds should consult their own tax advisors with respect to applicable federal, state, and local tax rules, and any pending or proposed legislation or regulatory or administrative actions, relating to the Bonds based on their own particular circumstances.**

This summary is for general information only and is not intended to constitute a complete analysis of all tax considerations relating to the purchase, ownership, and disposition of bonds. It does not address the application of the alternative minimum tax imposed on noncorporate taxpayers and applicable corporations (as defined in Section 59(k) of the Code) or the additional tax on net investment income, nor does it address the U.S. federal estate and gift tax or any state, local, or non-U.S. tax consequences except with respect to Minnesota income tax to the extent expressly specified herein. This summary is limited to consequences to U.S. holders that purchase the Bonds for cash at original issue and hold the Bonds as "capital assets" (generally, property held for investment).

This discussion does not address all aspects of U.S. federal income or state taxation that may be relevant to particular holders of bonds in light of their specific circumstances or the tax considerations applicable to holders that may be subject to special income tax rules, such as: holders subject to special tax accounting rules under Section 451(b) of the Code; insurance companies; brokers, dealers, or traders in stocks, securities, or currencies or notional principal contracts; foreign corporations subject to the branch profits tax; holders receiving payments in respect of the Bonds through foreign entities; and S corporations, partnerships, or other pass-through entities or investors therein.

For purposes of this discussion, the "issue price" of a maturity of bonds is the first price at which a substantial amount of bonds of that maturity is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers.

### ***Tax-Exempt Interest***

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes under Section 103 of the Code, (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for Minnesota alternative minimum tax purposes. Interest on the Bonds may, however, be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code) and is included, in net income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.

The Code establishes certain requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed or refinanced with such proceeds and restrictions on the investment Bond proceeds and other amounts. The District has made certain representations and has covenanted to comply with certain restrictions, conditions, and requirements designed to ensure interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or noncompliance with these covenants may cause interest on the Bonds to be included in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Bond Counsel has not independently verified the accuracy of these representations and will not verify the continuing compliance with these covenants. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds is included in federal gross income or in Minnesota taxable net income.

### ***Original Issue Discount***

Bonds may be issued with original issue discount ("OID"). A bond will be treated as issued with OID (a "Discount Bond") if its "stated redemption price at maturity" (i.e., the sum of all amounts payable on the bond other than payments of qualified stated interest) exceeds its issue price. OID that accrues to a holder of a Discount Bond is excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond would be so excluded. The amount of OID that accrues on a Discount Bond is added to the holder's federal and Minnesota tax bases. OID is taxable under the Minnesota franchise tax on corporations and financial institutions.

OID on a Discount Bond generally accrues pursuant to a constant-yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of OID that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Discount Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Discount Bonds, over (2) the amount of stated interest actually payable. For this purpose, the adjusted issue price is determined by adding to the issue price for such Discount Bonds the OID that is treated as having accrued during all prior accrual periods. If a Discount Bond is sold or otherwise disposed of between compounding dates, then the original issue discount that would have accrued for that accrual period for federal income tax purposes is allocated ratably to the days in that accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the issue price plus accrued interest and accrued OID, the amount of OID that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of the Discount Bond. If the excess is greater than the amount of remaining OID, the basis reduction rules for amortizable bond premium may result in taxable gain upon sale or other disposition of the Bonds, even if the Bonds are sold, redeemed, or retired for an amount equal to or less than their cost.

It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual and may be deemed to accrue differently than under federal law.

### ***Market Discount***

If a bond is purchased for a cost that is less than the bond's issue price (plus accrued original issue discount, if any), the purchaser may be treated as having purchased the bond with market discount (unless a statutory *de minimis* rule applies). Market discount is treated as ordinary income and generally is recognized on the maturity or earlier disposition of the bond (to the extent that the gain realized does not exceed the accrued market discount on the bond).

### ***Bond Premium***

A holder that acquires a bond for an amount in excess of its stated redemption price at maturity generally must, from time to time, reduce the holder's federal and Minnesota tax bases for the bond. Premium generally is amortized for federal income tax purposes and Minnesota income and franchise tax purposes on the basis of a Bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, holders who acquire bonds at a premium might recognize taxable gain upon sale of the bonds, even if such bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes or for purposes of the Minnesota income tax applicable to individuals, estates, and trusts.

### ***Related Tax Considerations***

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the bonds into account in determining the taxability of such benefits.

Section 265(a) of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. In the case of a financial institution, generally, no deduction is allowed under Section 265(b) of the Code for that portion of the holder's interest expense that is allocable to interest on tax-exempt obligations, such as the Bonds, unless the obligations are "qualified tax-exempt obligations." Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds. The Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Income or loss on the Bonds may be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations.

The ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may affect a holder's federal, state, or local tax liability in some additional circumstances. The nature and extent of these other tax consequences depends upon the particular tax status of the holder and the holder's other items of income or deduction.

### ***Sale or Other Disposition***

A holder will generally recognize gain or loss on the sale, exchange, redemption, retirement, or other disposition of a bond equal to the difference between (i) the amount realized less amounts attributable to any accrued but unpaid stated interest and (ii) the holder's adjusted tax basis in the bond. The amount realized includes the cash and the fair market value of any property received by the holder in exchange for the bond. A holder's adjusted tax basis in a bond generally will be equal to the amount that the holder paid for the bond, increased by any accrued original issue discount with respect to the bond and reduced by the amount of any amortized bond premium on the bond. Except to the extent attributable to market discount (which will be taxable as ordinary income to the extent not previously included in income), any gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holder held the bond for more than one year. Long-term capital gains recognized by certain non-corporate persons, including individuals, generally are taxable at a reduced rate. The deductibility of capital losses is subject to significant limitations.

### ***Information Reporting and Backup Withholding***

Payments of interest on the Bonds (including any allocable bond premium or accrued original issue discount) and proceeds from the sale or other disposition of the Bonds are expected to be reported to the IRS as required under applicable Treasury Regulations. Backup withholding will apply to these payments if the holder fails to provide an accurate taxpayer identification number and certification that it is not subject to backup withholding (generally on an IRS Form W-9) or otherwise fails to comply with the applicable backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Certain holders are exempt from information reporting. Potential holders should consult their own tax advisors regarding qualification for an exemption and the procedures for obtaining such an exemption.

## **MUNICIPAL ADVISOR**

Ehlers has served as municipal advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a municipal advisor. Ehlers makes no representation, warranty or guarantee regarding the accuracy or completeness of the information in this Preliminary Official Statement, and its assistance in preparing this Preliminary Official Statement should not be construed as a representation that it has independently verified such information.

## **MUNICIPAL ADVISOR AFFILIATED COMPANIES**

BTSC and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the District, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the District under an agreement separate from Ehlers.

## **INDEPENDENT AUDITORS**

The basic financial statements of the District for the fiscal year ended June 30, 2023 have been audited by BerganKDV, Ltd., St. Cloud, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

## **RISK FACTORS**

The following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

**Taxes:** The Bonds are general obligations of the District, the ultimate payment of which rests in the District's ability to levy and collect sufficient taxes to pay debt service should other revenue (state aids) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the District in time to pay debt service when due.

**State Actions:** Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the District, the taxable value of property within the District, and the ability of the District to levy and collect property taxes.

**Future Changes in Law:** Various State and federal laws, regulations and constitutional provisions apply to the District and to the Bonds. The District can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the District or the taxing authority of the District.

**Ratings; Interest Rates:** In the future, the District's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

**Tax Exemption:** If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the bond resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to United States or State of Minnesota income taxation, retroactive to the date of issuance.

**Continuing Disclosure:** A failure by the District to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

**Levy Limits:** Minnesota school district tax levies for most purposes are subject to statutory limitations. No limit, however, is placed on the debt service levy, and districts are required to levy 105% of actual principal and interest requirements to allow for delinquencies. School districts receive a basic revenue amount per pupil unit from aid and levy proceeds in a variety of categorical state aids. They are also allowed to certify additional levies within limits for certain specified purposes. The State Department of Education and the applicable County Auditors review the levies of each school district to determine compliance with state levy limits.

**State Economy; State Aids:** State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

**Book-Entry-Only System:** The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the District to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

**Economy:** A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the District, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the District may have an adverse effect on the value of the Bonds in the secondary market.

**Secondary Market for the Bonds:** No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

**Bankruptcy:** The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

**Cybersecurity:** The District is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the District will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

# VALUATIONS

## OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2020/21	2021/22	2022/23
Residential homestead <sup>1</sup>	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead <sup>1</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,880,000 - 0.50% <sup>2</sup> Over \$1,880,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% <sup>2</sup> Over \$1,900,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,890,000 - 0.50% <sup>2</sup> Over \$1,890,000 - 1.00% <sup>2</sup>
Agricultural non-homestead	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>
Seasonal recreational residential	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$174,000 - .75% Over \$174,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%
Industrial/Commercial/Utility <sup>5</sup>	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

<sup>1</sup> A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

<sup>2</sup> Applies to land and buildings. Exempt from referendum market value tax.

<sup>3</sup> Exempt from referendum market value tax.

<sup>4</sup> Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

<sup>5</sup> The estimated market value of utility property is determined by the Minnesota Department of Revenue.



## CURRENT PROPERTY VALUATIONS

**2022/23 Economic Market Value** \$4,397,188,537<sup>1</sup>

**2022/23 Assessor's Estimated Market Value**

	<b>Rice County</b>	<b>Goodhue County</b>	<b>Total</b>
Real Estate	\$3,884,877,900	\$1,554,500	\$3,886,432,400
Personal Property	<u>62,760,800</u>	<u>0</u>	<u>62,760,800</u>
Total Valuation	<u><u>\$3,947,638,700</u></u>	<u><u>\$1,554,500</u></u>	<u><u>\$3,949,193,200</u></u>

**2022/23 Net Tax Capacity**

	<b>Rice County</b>	<b>Goodhue County</b>	<b>Total</b>
Real Estate	\$40,240,638	\$15,444	\$40,256,082
Personal Property	<u>1,238,015</u>	<u>0</u>	<u>1,238,015</u>
Net Tax Capacity	\$41,478,653	\$15,444	\$41,494,097
Less: Captured Tax Increment Tax Capacity <sup>2</sup>	<u>(305,930)</u>	<u>0</u>	<u>(305,930)</u>
Taxable Net Tax Capacity	<u><u>\$41,172,723</u></u>	<u><u>\$15,444</u></u>	<u><u>\$41,188,167</u></u>

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<sup>1</sup> According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the District is about 89.91% of the actual selling prices of property most recently sold in the District. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the District of \$4,397,188,537.

<sup>2</sup> The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the District.

## 2022/23 NET TAX CAPACITY BY CLASSIFICATION

	<b>2022/23 Net Tax Capacity</b>	<b>Percent of Total Net Tax Capacity</b>
Residential homestead	\$18,245,890	43.97%
Agricultural	6,723,378	16.20%
Commercial/industrial	8,065,418	19.44%
Public utility	1,167,360	2.81%
Railroad operating property	97,216	0.23%
Non-homestead residential	5,273,128	12.71%
Commercial & residential seasonal/rec.	683,692	1.65%
Personal property	<u>1,238,015</u>	<u>2.98%</u>
Total	<u><u>\$41,494,097</u></u>	<u><u>100.00%</u></u>

## TREND OF VALUATIONS

<b>Levy Year</b>	<b>Assessor's Estimated Market Value</b>	<b>Assessor's Taxable Market Value</b>	<b>Net Tax Capacity<sup>1</sup></b>	<b>Taxable Net Tax Capacity<sup>2</sup></b>	<b>Percent Increase/Decrease in Estimated Market Value</b>
2018/19	\$2,913,096,000	\$2,735,155,600	\$30,185,479	\$29,704,225	6.27%
2019/20	3,096,910,200	2,923,366,200	31,939,829	31,752,677	6.31%
2020/21	3,217,653,400	3,054,534,300	33,743,178	33,534,368	3.90%
2021/22	3,387,390,400	3,227,878,800	35,693,717	35,438,737	5.28%
2022/23	3,949,193,200	3,786,628,800	41,494,097	41,188,167	16.59%

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<sup>1</sup> Net Tax Capacity includes tax increment values.

<sup>2</sup> Taxable Net Tax Capacity does not include tax increment values.

## LARGEST TAXPAYERS

Taxpayer	Type of Property	2022/23 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Northern Natural Gas Co.	Utility	\$1,284,930	3.10%
Faribault Foods, Inc.	Commercial	1,048,655	2.53%
Xcel Energy	Utility	717,310	1.73%
Aldi, Inc.	Commercial	529,020	1.27%
Sage Electrochromics, Inc.	Commercial	343,026	0.83%
Daikin Applied Americas, Inc.	Commercial	328,870	0.79%
Allina Health System	Commercial	237,911	0.57%
Walmart	Commercial	227,286	0.55%
Minnesota Municipal Power Agency	Utility	146,876	0.35%
MDC Development IV LLC	Commercial	133,642	0.32%
Total		<u>\$3,712,596</u>	<u>8.95%</u>

District's Total 2022/23 Net Tax Capacity                      \$41,494,097

**Source:** Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Rice and Goodhue Counties.

## DEBT

### DIRECT DEBT<sup>1</sup>

#### General Obligation Debt (see schedule following)

Total G.O. debt secured by tax abatement revenues and state aids <sup>2</sup>	\$1,175,000
Total G.O. debt secured by taxes and state aids <sup>2</sup> (includes the Bonds)*	<u>10,770,000</u>
Total General Obligation Debt*	<u><u>\$11,945,000</u></u>

#### Lease Purchase Obligations (see schedule following)

Total lease purchase obligations paid by annual appropriations <sup>3</sup>	<u><u>\$4,703,409</u></u>
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\*Preliminary, subject to change.

<sup>1</sup> Outstanding debt is as of the dated date of the Bonds.

<sup>2</sup> Based upon the Long Term Facilities Maintenance Revenue formula, the agricultural land valuation and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

<sup>3</sup> Non-general obligation debt has not been included in the debt ratios.

## **DEBT PAYMENT HISTORY**

The District has no record of default in the payment of principal and interest on its debt.

## **FUTURE FINANCING**

The District has no current plans for additional financing in the next 12 months.

## **STATE AID FOR DEBT SERVICE**

The Minnesota Debt Service Equalization program provides state aid to finance a portion of the principal and interest payments on voter approved school building bonds. Bonds and Certificates that are not eligible for the program include all alternative facilities bonds, facilities maintenance bonds, capital facilities bonds, OPEB bonds, building bonds with relatively short maturities, and Certificates of Participation (COPs).

Under the Debt Service Equalization Formula (the Formula) adopted by the 2001 Minnesota State Legislature, each school district is responsible for the amount of its qualifying annual debt service which is equal to 15.74% of its Adjusted Net Tax Capacity (ANTC). The District does not currently qualify for debt service equalization aid.

In addition to debt service equalization aid, some school districts will qualify for state Long Term Facilities Maintenance Aid to finance a portion of the payments on Alternative Facilities Bonds and Facilities Maintenance Bonds, pursuant to the Long Term Facilities Maintenance Revenue program approved by the State in 2015. If any aid is received, it is deposited into the school district's debt service fund and must be used for payments on the bonds; any payment of state aid into the debt service fund causes a reduction in the tax levy for Alternative Facilities Bonds and Facilities Maintenance Bonds. The amount of aid received in the debt service fund will vary each year, depending on a number of factors. Although the District expects to receive some Long Term Facilities Maintenance Aid in its debt service fund, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by state aid.

Some school districts will also receive aid for debt service payments through the state School Building Bond Agricultural Credit, which is paid to school districts to offset a portion of certain bond levies (Minnesota Statutes, Section 273.1387). The reimbursement percentage is 70% for taxes payable in 2023, and thereafter. The school building bond agricultural credit applies to farmland, excluding the house, garage and one acre, and to rural vacant land and managed forest land. The amount of agricultural credit received in the debt service fund for taxes payable 2023 is approximately 9.09% of total annual debt service levies, based on the District's 2022/23 qualifying agricultural land valuation.

**BONDED DEBT LIMIT**

Minnesota Statutes, Section 475.53, subdivision 4, presently limits the "net debt" of a school district to 15% of the estimated market value of all taxable property situated within its corporate limits. The estimated market value of property within a district, on which its debt limit is based, is (a) the value certified by the county auditors, or (b) this value divided by the ratio certified by the commissioner of revenue, whichever results in a higher value. The current debt limit of the District is computed as follows:

2022/23 Economic Market Value	\$4,397,188,537
Multiply by 15%	<u>0.15</u>
Statutory Debt Limit	\$659,578,281
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(10,770,000)
Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations	<u>(4,703,409)</u>
Unused Debt Limit*	<u><u>\$644,104,872</u></u>

\*Preliminary, subject to change.

Independent School District No. 656 (Faribault Public Schools), Minnesota  
Schedule of Bonded Indebtedness  
General Obligation Debt Secured by Tax Abatement Revenues  
(As of 02/15/2024)

Tax Abatement Bonds Series 2019A								
Dated	04/17/2019							
Amount	\$1,845,000							
Maturity	02/01							
Fiscal Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2025	180,000	35,250	180,000	35,250	215,250	995,000	15.32%	2025
2026	185,000	29,850	185,000	29,850	214,850	810,000	31.06%	2026
2027	195,000	24,300	195,000	24,300	219,300	615,000	47.66%	2027
2028	200,000	18,450	200,000	18,450	218,450	415,000	64.68%	2028
2029	205,000	12,450	205,000	12,450	217,450	210,000	82.13%	2029
2030	210,000	6,300	210,000	6,300	216,300	0	100.00%	2030
	1,175,000	126,600	1,175,000	126,600	1,301,600			

**Independent School District No. 656 (Faribault Public Schools), Minnesota**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Secured by Taxes**  
**(As of 02/15/2024)**

Facilities Maintenance Bonds Series 2024A								
<b>Dated</b>	02/15/2024							
<b>Amount</b>	\$10,770,000*							
<b>Maturity</b>	02/01							
<b>Fiscal Year Ending</b>	<b>Principal</b>	<b>Estimated Interest</b>	<b>Total Principal</b>	<b>Total Interest</b>	<b>Total P &amp; I</b>	<b>Principal Outstanding</b>	<b>% Paid</b>	<b>Fiscal Year Ending</b>
<b>2025</b>	1,700,000	517,558	1,700,000	517,558	2,217,558	9,070,000	15.78%	<b>2025</b>
<b>2026</b>	1,710,000	453,500	1,710,000	453,500	2,163,500	7,360,000	31.66%	<b>2026</b>
<b>2027</b>	1,815,000	368,000	1,815,000	368,000	2,183,000	5,545,000	48.51%	<b>2027</b>
<b>2028</b>	1,995,000	277,250	1,995,000	277,250	2,272,250	3,550,000	67.04%	<b>2028</b>
<b>2029</b>	2,090,000	177,500	2,090,000	177,500	2,267,500	1,460,000	86.44%	<b>2029</b>
<b>2030</b>	1,460,000	73,000	1,460,000	73,000	1,533,000	0	100.00%	<b>2030</b>
	10,770,000	1,866,808	10,770,000	1,866,808	12,636,808			

\* Preliminary, subject to change.

Independent School District No. 656 (Faribault Public Schools), Minnesota  
Schedule of Bonded Indebtedness  
Non-General Obligation Debt Secured by Annual Appropriation  
(As of 02/15/2024)

	Lease Purchase Series 2015A		Lease Purchase Series 2015B		Certificates of Participation Series 2020A							
Dated Amount	06/18/2015 \$2,062,000		06/18/2015 \$1,842,200		12/17/2020 \$3,820,000							
Maturity	02/01 & 08/01		02/01 & 08/01		10/01							
Fiscal Year												
Ending	Principal	Interest	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2024	0	0	0	0	0	38,025	0	38,025	38,025	4,703,409	.00%	2024
2025	143,390	31,680	204,652	6,816	160,000	73,650	508,042	112,146	620,188	4,195,366	10.80%	2025
2026	148,045	27,025	104,357	1,378	165,000	68,775	417,401	97,178	514,579	3,777,965	19.68%	2026
2027	152,850	22,220			170,000	63,750	322,850	85,970	408,820	3,455,115	26.54%	2027
2028	157,811	17,258			175,000	58,575	332,811	75,833	408,645	3,122,304	33.62%	2028
2029	162,934	12,136			185,000	53,175	347,934	65,311	413,245	2,774,370	41.01%	2029
2030	168,222	6,847			190,000	48,500	358,222	55,347	413,570	2,416,148	48.63%	2030
2031	86,148	1,387			190,000	44,700	276,148	46,087	322,235	2,140,000	54.50%	2031
2032					195,000	40,850	195,000	40,850	235,850	1,945,000	58.65%	2032
2033					200,000	36,900	200,000	36,900	236,900	1,745,000	62.90%	2033
2034					205,000	32,850	205,000	32,850	237,850	1,540,000	67.26%	2034
2035					205,000	28,750	205,000	28,750	233,750	1,335,000	71.62%	2035
2036					210,000	24,600	210,000	24,600	234,600	1,125,000	76.08%	2036
2037					215,000	20,350	215,000	20,350	235,350	910,000	80.65%	2037
2038					220,000	16,000	220,000	16,000	236,000	690,000	85.33%	2038
2039					225,000	11,550	225,000	11,550	236,550	465,000	90.11%	2039
2040					230,000	7,000	230,000	7,000	237,000	235,000	95.00%	2040
2041					235,000	2,350	235,000	2,350	237,350	0	100.00%	2041
	1,019,400	118,554	309,009	8,193	3,375,000	670,350	4,703,409	797,097	5,500,506			



## OVERLAPPING DEBT<sup>1</sup>

Taxing District	2022/23 Taxable Net Tax Capacity	% In District	Total G.O. Debt <sup>2</sup>	District's Proportionate Share
Counties of:				
Goodhue	\$99,684,878	0.0155%	\$10,855,000	\$1,683
Rice	91,774,697	44.8628%	58,110,000	26,069,773
Cities of:				
Faribault	23,573,544	100.0000%	5,720,000	5,720,000
Nerstrand	298,686	100.0000%	955,000	955,000
Towns of:				
Cannon City	2,490,711	93.0994%	64,273	59,838
Morristown	1,747,138	0.9418%	3,235,000	30,467
Wells	3,795,803	100.0000%	107,000	<u>\$107,000</u>
District's Share of Total Overlapping Debt				<u><u>\$32,943,761</u></u>

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<sup>1</sup> Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does **not** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

<sup>2</sup> Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

## DEBT RATIOS

	<b>G.O. Debt</b>	<b>Debt/Economic Market Value \$4,397,188,537</b>	<b>Debt/ Per Capita 31,697<sup>1</sup></b>
Direct G.O. Debt Secured By:			
Tax Abatement Revenues and State Aids	\$1,175,000		
Taxes and State Aids*	<u>10,770,000</u>		
Total General Obligation Debt*	\$11,945,000		
Less: Agricultural Credit <sup>2</sup>	<u>(1,085,801)</u>		
Tax Supported General Obligation Debt*	\$10,859,200	0.25%	\$342.59
District's Share of Total Overlapping Debt	<u>\$32,943,761</u>	<u>0.75%</u>	<u>\$1,039.33</u>
Total*	<u><u>\$43,802,961</u></u>	<u><u>1.00%</u></u>	<u><u>\$1,381.93</u></u>

\*Preliminary, subject to change.

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<sup>1</sup> Estimated 2022 population.

<sup>2</sup> Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 9.09% of the principal and interest of the District's general obligation bonds. Assuming this percentage continues for the life of the issue, the State's proportionate share of principal is \$1,085,801.

## TAX LEVIES, COLLECTION AND RATES

### TAX LEVIES AND COLLECTIONS

<b>Tax Year</b>	<b>Net Tax Levy<sup>1</sup></b>	<b>Total Collected Following Year</b>	<b>Collected to Date</b>	<b>% Collected</b>
2018/19	\$8,107,999	\$8,043,226	\$8,106,926	99.99%
2019/20	8,413,761	8,345,104	8,411,391	99.97%
2020/21	9,740,529	9,681,394	9,735,129	99.94%
2021/22	10,453,359	10,385,664	10,438,848	99.86%
2022/23	11,463,143	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.<sup>2</sup> Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

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<sup>1</sup> This reflects the Final Levy Certification of the District after all adjustments have been made.

<sup>2</sup> Second half tax payments on agricultural property are due on November 15th of each year.

## TAX CAPACITY RATES<sup>1</sup>

	2018/19	2019/20	2020/21	2021/22	2022/23
I.S.D. No. 656 (Faribault Public Schools)	14.941%	12.857%	15.556%	14.690%	12.973%
Goodhue County	46.502%	46.661%	45.430%	47.181%	42.863%
Rice County	40.979%	40.920%	41.190%	40.597%	37.814%
City of Faribault	54.803%	53.137%	52.574%	51.680%	47.444%
City of Nerstrand	49.797%	51.729%	51.172%	51.930%	50.220%
Town of Holden <sup>2</sup>	13.259%	13.710%	13.426%	13.569%	11.790%
Faribault EDA	1.336%	1.345%	1.500%	1.486%	1.367%
Faribault HRA	1.364%	1.373%	1.531%	1.516%	1.395%
Rice County HRA	0.218%	0.212%	0.266%	0.256%	0.248%
SEMMCHRA	0.852%	0.828%	0.788%	0.806%	0.696%

### *Referendum Market Value Rates:*

I.S.D. No. 656 (Faribault Public Schools)	0.17432%	0.19288%	0.18939%	0.20456%	0.20620%
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**Source:** Tax Levies and Collections and Tax Capacity Rates have been furnished by Rice and Goodhue Counties.

## THE ISSUER

### EMPLOYEES

The District is governed by an elected school board and employs a staff of 853, including 398 non-licensed employees and 455 licensed employees (312 of whom are teachers). The District provides education for 3,163 students in grades kindergarten through twelve.

### PENSIONS; UNIONS

#### **Teachers' Retirement Association (TRA)**

All teachers employed by the District are covered by defined benefit pension plans administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356, as amended.

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<sup>1</sup> After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

<sup>2</sup> Representative town rate.

## **Public Employees' Retirement Association (PERA)**

All full-time and certain part-time employees of the District (other than those covered by TRA) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356, as amended.

### **Recognized and Certified Bargaining Units**

<b>Bargaining Unit</b>	<b>Expiration Date of Current Contract</b>
Faribault Education Association	June 30, 2025
Faribault Principals Association	June 30, 2025
Operating Engineers Local 70 - Custodians & Engineers	June 30, 2024
Operating Engineers Local 70 - Secretarial & Clerical	June 30, 2024
Operating Engineers Local 70 - Paraprofessionals	June 30, 2024
Operating Engineers Local 70 - Educational Assistants	June 30, 2024

## **POST EMPLOYMENT BENEFITS**

The District has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The District's most recent actuarial study shows a total OPEB liability of \$5,150,947 as of June 30, 2023. In September of 2018 the District created an irrevocable Trust. As of June 30, 2023, the net position of the trust was \$2,341,714. Future OPEB costs will be paid from the trust and partially from operating funds.

**Source:** The District's most recent actuarial study.

## STUDENT BODY

The number of students enrolled for the past four years and for the current year have been as follows:

<b>Year</b>	<b>Kindergarten and Pre K</b>	<b>Grades 1-6</b>	<b>Grades 7-12</b>	<b>Total</b>
2019/20	361	1,426	1,681	3,468
2020/21	347	1,340	1,651	3,338
2021/22	385	1,254	1,667	3,306
2022/23	412	1,237	1,645	3,294
2023/24	370	1,154	1,639	3,163

Enrollments for the next three years are projected to be as follows:

<b>Year</b>	<b>Kindergarten and Pre K</b>	<b>Grades 1-6</b>	<b>Grades 7-12</b>	<b>Total</b>
2024/25	375	1,234	1,642	3,251
2025/26	370	1,209	1,639	3,218
2026/27	387	1,202	1,631	3,220

## SCHOOL BUILDINGS

<b>School Building</b>	<b>Year Constructed</b>	<b>Years of Additions/ Remodelings</b>
Jefferson Elementary	1953	1957, 1968, 1998
Lincoln Elementary	1953	1968, 1988, 1998
Nerstrand elementary	1954	1961
Roosevelt Elementary	1997	2021
Faribault Middle School	1984	2016
Faribault High School	1958	1974, 1986, 1998, 2016
McKinley EC Center	1957	1998
ALC	1970	--

## LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

## MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

Currently there is no statutory authority for Minnesota school districts to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code.

Nevertheless, there can be no assurance (a) that State law will not change in the future while the Bonds are outstanding; or (b) even absent such a change in State law, that an executive order or other executive action could not effectively authorize the District to file for relief under Chapter 9; or (c) whether it would still be eligible for voluntary or involuntary relief under Chapters of the Bankruptcy Code other than Chapter 9 or under similar federal or state law or equitable proceeding regarding insolvency or providing for protection from creditors. Such action could impact the rights of holders of the Bonds. Such modifications could be adverse to holders of the Bonds and there could ultimately be no assurance that holders of the Bonds would be paid in full or in part on the Bonds.

### FUNDS ON HAND (as of October 31, 2023)

<b>Fund</b>	<b>Total Cash and Investments</b>
General	\$9,425,566
Food Service	1,923,198
Community Service	929,554
Debt Service	2,191,034
Building/Construction	(27,439)
Internal Service	875,175
OPEB Trust	2,148,294
School Administration	<u>120,383</u>
Total Funds on Hand	<u><u>\$17,585,764</u></u>

## SUMMARY GENERAL FUND INFORMATION

The following are summaries of the revenues and expenditures and fund balances for the District's General Fund. These summaries are not purported to be the complete audited financial statements of the District, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the District. Copies of the complete statements are available upon request. Appendix A includes the 2023 audited financial statements.

FISCAL YEAR ENDING JUNE 30					
COMBINED STATEMENT	2020 Audited	2021 Audited	2022 Audited	2023 Audited	2023-24 Adopted Budget <sup>1</sup>
<b>Revenues</b>					
Local property taxes	\$6,093,679	\$6,199,033	\$7,621,719	\$8,284,051	\$9,066,415
Other local and county revenues	1,373,926	1,401,838	1,436,413	1,853,246	1,554,472
Revenue from state sources	42,018,113	40,938,994	40,291,711	41,770,173	47,359,595
Revenue from federal sources	2,805,269	6,374,442	9,745,914	8,501,478	6,239,082
Sales and other conversion of assets	0	4,449	30,110	26,411	25,000
Earnings and investments	195,868	0	0	0	0
<b>Total Revenues</b>	<b>\$52,486,855</b>	<b>\$54,918,756</b>	<b>\$59,125,867</b>	<b>\$60,435,359</b>	<b>\$64,244,564</b>
<b>Expenditures</b>					
Current:					
Administration	\$2,209,629	\$2,156,267	\$2,128,019	\$2,138,067	\$2,164,539
District support services	1,661,584	1,657,776	1,450,585	1,603,317	1,820,105
Elementary and secondary regular instruction	20,292,699	22,311,975	24,968,088	23,902,658	24,503,869
Vocational education instruction	445,195	493,783	518,247	479,559	501,374
Special education instruction	11,279,409	11,937,554	12,531,662	13,992,850	14,089,947
Instructional support services	3,905,255	3,737,828	4,078,956	4,672,432	4,746,788
Pupil support services	5,371,379	5,528,336	6,646,598	6,349,833	6,905,054
Sites and buildings	4,488,272	4,135,796	4,854,492	5,261,793	6,138,141
Fiscal and other fixed cost programs	175,877	170,909	213,881	226,286	244,000
Debt service	979,668	2,730,056	1,221,808	822,549	878,524
Capital outlay	1,907,626	1,152,281	810,281	668,376	723,450
<b>Total Expenditures</b>	<b>\$52,716,593</b>	<b>\$56,012,561</b>	<b>\$59,422,617</b>	<b>\$60,117,720</b>	<b>\$62,715,791</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(\$229,738)</b>	<b>(\$1,093,805)</b>	<b>(\$296,750)</b>	<b>\$317,639</b>	<b>\$1,528,773</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	\$0	\$0	\$93,432	\$99,929	\$0
Proceeds from capital leases	0	567,965	305,547	0	0
Sale of equipment	36,280	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>36,280</b>	<b>567,965</b>	<b>398,979</b>	<b>99,929</b>	<b>0</b>
<b>Net changes in Fund Balances</b>	<b>(\$193,458)</b>	<b>(\$525,840)</b>	<b>\$102,229</b>	<b>\$417,568</b>	<b>\$1,528,773</b>
General Fund Balance July 1	\$8,104,261	\$7,991,557	\$7,465,717	\$7,567,946	
Prior Period Adjustment	80,754	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	\$7,991,557	\$7,465,717	\$7,567,946	\$7,985,514	
<b>DETAILS OF JUNE 30 FUND BALANCE</b>					
Nonspendable	\$641,085	\$55,575	\$43,056	\$327,238	
Restricted	1,288,113	589,709	500,475	1,100,117	
Assigned	112,186	431,013	318,827	0	
Unassigned	5,950,173	6,389,420	6,705,588	6,558,159	
<b>Total</b>	<b>\$7,991,557</b>	<b>\$7,465,717</b>	<b>\$7,567,946</b>	<b>\$7,985,514</b>	

<sup>1</sup> The 2023-24 budget was adopted on June 20, 2023.



## GENERAL INFORMATION

### LOCATION

The District, with a 2020 U.S. Census population of 31,318 and a 2022 population estimate of 31,697, and comprising an area of 228 square miles, is located approximately 50 miles south of St. Paul, Minnesota.

### LARGER EMPLOYERS<sup>1</sup>

Larger employers in the District include the following:

<b>Firm</b>	<b>Type of Business/Product</b>	<b>Estimated No. of Employees</b>
I.S.D. No. 656 (Faribault Public Schools)	Elementary and secondary education	853
Jennie-O Turkey Store	Poultry processing	700
Minnesota correctional Facility- Faribault	Correctional facility	600
Daikin Applied	Sheet metal, heating & air conditioning	515
Rice County	County government and services	433
City of Faribault	Municipal government and services	400
Faribault Foods	Food products and manufacturers	350
District One Hospital/Allina Health	Hospital	322
Hy-Vee	Grocery store	260
Walmart Supercenter	Retail and grocery store	200

**Source:** Data Axle Reference Solutions, written and telephone survey, and the Minnesota Department of Employment and Economic Development.

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<sup>1</sup> This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above.

## U.S. CENSUS DATA

### Population Trend: The District

2010 U.S. Census population	30,624
2020 U.S. Census population	31,318
Percent of Change 2010 - 2020	2.27%
2022 State Demographer Estimate	31,697

### Income and Age Statistics

	The District	Rice County	State of Minnesota	United States
2022 per capita income	\$33,879	\$35,582	\$44,947	\$41,261
2022 median household income	\$66,787	\$76,319	\$84,313	\$75,149
2022 median family income	\$83,538	\$95,021	\$107,072	\$92,646
2022 median gross rent	\$1,048	\$892	\$1,178	\$1,268
2022 median value owner occupied units	\$241,600	\$312,800	\$286,800	\$281,900
2022 median age	40.4 yrs.	37.3 yrs.	38.5 yrs.	38.5 yrs.

	State of Minnesota	United States
District % of 2022 per capita income	75.38%	82.11%
District % of 2022 median family income	78.02%	90.17%

**Source:** 2010 and 2020 Census of Population and Housing, and 2021 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (<https://data.census.gov/cedsci>) and Minnesota State Demographer (<https://mn.gov/admin/demography/data-by-place/school-district-data.jsp>).

## EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>	<u>Average Unemployment</u>	
	Rice County	Rice County	State of Minnesota
2019	36,199	3.1%	3.3%
2020	35,632	5.4%	6.3%
2021	35,814	3.5%	3.8%
2022	36,502	2.6%	2.7%
2023, November	36,765	1.6%	1.9%

**Source:** Minnesota Department of Employment and Economic Development.

### **FINANCIAL STATEMENTS**

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the District's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The District has not requested or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the District requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the District since the date of the financial statements, in connection with the issuance of the Bonds, the District represents that there have been no material adverse change in the financial position or results of operations of the District, nor has the District incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

**Independent School District No. 656  
Faribault, Minnesota**

**Basic Financial Statements**

**June 30, 2023**

**Independent School District No. 656**  
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**Independent School District No. 656  
Board of Education and Administration  
June 30, 2023**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Chad Wolff	Chairperson	December 31, 2026
John Bellingham	Vice Chairperson	December 31, 2026
Casie Steeves	Clerk	December 31, 2024
Jerry Robicheau	Treasurer	December 31, 2024
Richard Olson	Director	December 31, 2024
Lynda Boudreau	Director	December 31, 2026
Linda Moore	Director	December 31, 2026
 <u>Administration</u>		
Jamie Bente	Superintendent	
Scott Gerdes	Director of Finance and Operations	

**Independent Auditor's Report**

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

**Report on the Audit of the Financial Statements**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, Faribault, Minnesota, as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 656, Faribault, Minnesota, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, Food Service Special Revenue Fund, and Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**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*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 656 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.

**Emphasis of Matter – Implementation of GASB 96**

The District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Financial Statements**

The management of Independent School District No. 656 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.



## **Responsibilities of Management for the Financial Statements (Continued)**

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which 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, which 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, which follows this report letter, and Required Supplementary Information 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

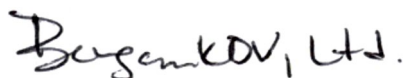
### **Supplementary Information**

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

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 accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2023, 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 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.



St. Cloud, Minnesota  
October 11, 2023

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

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2022-2023) and the prior year (2021-2022) is required to be presented in the MD&A.

### **Financial Highlights**

Key financial highlights for the 2022-2023 fiscal year include the following:

- Student enrollment – students served (enrolled) in the district decreased from the previous year, going from 3,198 in 2021-22 to 3,170 in 2022-23. The student number upon which funding is calculated (includes resident students tuitioned out to other districts) decreased from 3,270 in 2021-22 to 3,242 in 2022-23. This represent only a 28 ADM drop year over year which is for less than in prior years.
- Net Position increased from \$4,660,775 to \$16,345,250, an increase of \$11,684,475 and over 250 percent more than the prior year.
- General Fund revenues were \$60,435,359 compared to expenditures of \$60,117,720 for revenue over expenses of \$317,639.
- Total General Fund balance increased by 417,567. Unassigned General Fund Balance decreased by \$147,429, due to an increase in gas and utilities and an increase in facilities expenses throughout the District.

### **Overview of the Financial Statements**

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

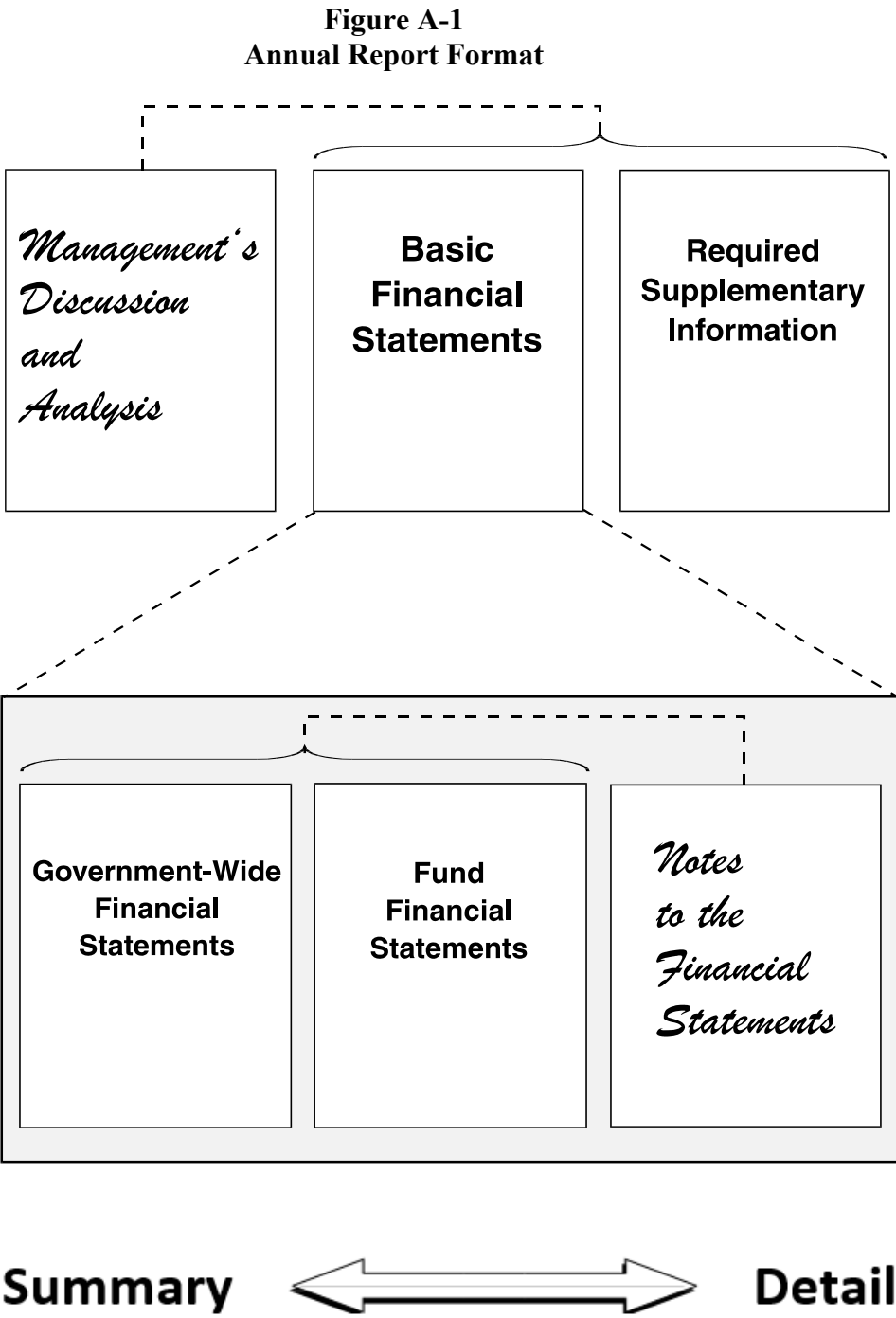
- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations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

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

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

**Overview of the Financial Statements (Continued)**

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



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

## Overview of the Financial Statements (Continued)

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

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements				
Type of Statements	Government-wide	Governmental Funds	Fund Statements	
			Proprietary Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds) and the District's Component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	♦ Statement of net position	♦ Balance sheet	♦ Statement of net position	♦ Statement of fiduciary net position
	♦ Statement of activities	♦ Statement of revenues, expenditures, & changes in fund balances	♦ Statement of changes in net position	♦ Statement of changes in fiduciary net assets
			♦ Statement of cash flows	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## Government-Wide Statements

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

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

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

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

### **Overview of the Financial Statements (Continued)**

#### **Government-Wide Statements (Continued)**

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

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

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

#### **Fund Financial Statements**

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

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

The District has three types of funds:

- **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Proprietary Funds:** The District uses an internal service fund to account for operations of the District's self-insured insurance plans. The activities of the funds are reported in a separate Statement of Net Position, Statement of Revenue, Expenses, and Changes in Fund Net Position and Statement of Cash Flows. This activity is included in the Government-Wide Statement of Net Position and Statement of Activities.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

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

## Financial Analysis of the District as A Whole

### Net Position

The District's combined Net Position was \$16,345,250 on June 30, 2023, an increase of \$11,684,475. (See Table A-1) This increase is mainly the result of increased COVID-19 federal funding and paying down debt from our bonds and leases. The fluctuations in the deferred outflows and deferred inflows of resources are related to various TRA and PERA state pension differences and changes in assumptions and proportion.

**Table A-1**

	Governmental Activities		Percentage
	2023	2022	Change
Current and other assets	\$ 30,600,970	\$ 28,805,159	6.23%
Capital and noncurrent assets	53,760,233	53,899,583	-0.26%
Total assets	84,361,203	82,704,742	2.00%
Deferred outflows of resources	13,976,356	13,605,442	2.73%
Current liabilities	10,169,240	9,539,160	6.61%
Long-term liabilities	51,487,361	34,396,639	49.69%
Total liabilities	61,656,601	43,935,799	40.33%
Deferred inflows of resources	20,335,708	47,713,610	-57.38%
Net position			
Invested in capital assets, net of related debt	44,831,729	43,320,100	3.49%
Restricted	4,436,029	3,586,672	23.68%
Unrestricted	(32,922,508)	(42,245,997)	22.07%
Net position	\$ 16,345,250	\$ 4,660,775	250.70%

### Changes in Net Position

The District's total revenues were \$69,067,223 for the year ended June 30, 2023. Property taxes, unrestricted state formula aid, and other revenue accounted for 52% of total revenue for the year (See Figure A-3). The remaining 48% came from other program revenues (charges for services, operating and capital grants, and contributions). Investment earnings increased significantly as a result of a rising interest rate market due to inflationary pressures. The accounting team is also actively investing excess funds to drive interest revenue

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

**Financial Analysis of the District as A Whole (Continued)**

**Changes in Net Position (Continued)**

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

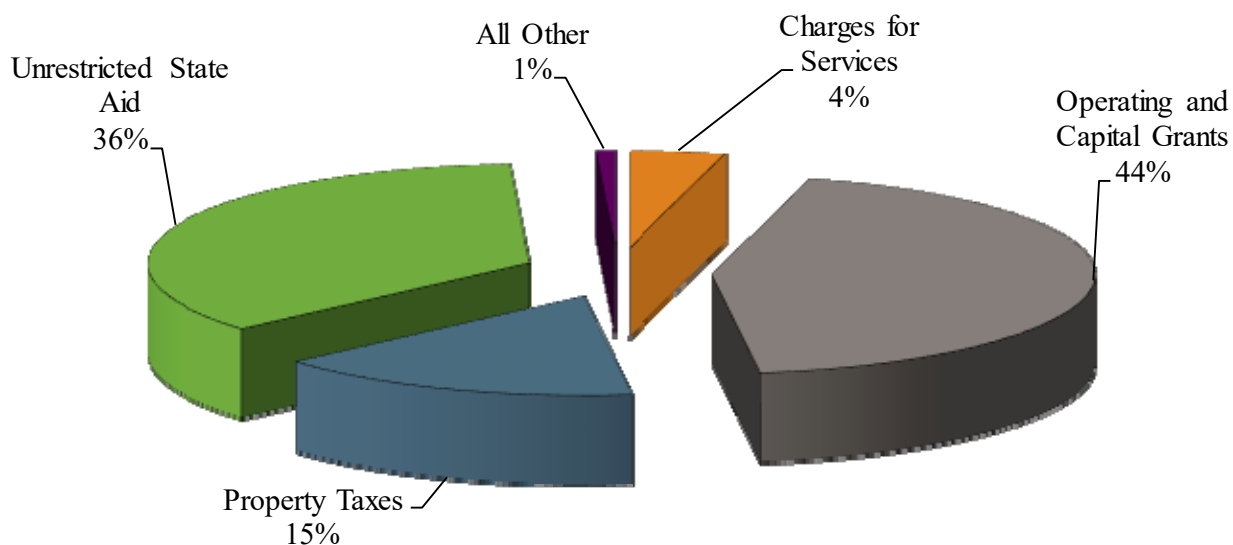
	Governmental Activities for the Fiscal Year Ended June 30,		Total Percentage Change
	2023	2022	
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 2,850,020	\$ 2,407,820	18.37%
Operating grants and contributions	29,588,212	30,286,157	-2.30%
Capital grants and contributions	707,111	638,645	10.72%
General revenues			
Property taxes	10,685,383	10,026,798	6.57%
Unrestricted state aid	24,673,554	24,371,310	1.24%
Investment earnings	422,424	49,744	749.20%
Other	140,519	97,612	43.96%
Total revenues	69,067,223	67,878,086	1.75%
<b>Expenses</b>			
Administration	1,818,379	2,032,367	-10.53%
District support services	1,752,365	2,000,596	-12.41%
Regular instruction	21,240,595	26,607,936	-20.17%
Vocational education instruction	310,377	509,049	-39.03%
Special education instruction	11,635,525	11,852,459	-1.83%
Instructional support services	4,105,370	4,005,987	2.48%
Pupil support services	5,569,475	6,614,102	-15.79%
Sites and buildings	5,247,377	5,022,266	4.48%
Fiscal and other fixed cost programs	215,122	213,881	0.58%
Food service	2,215,432	2,274,646	-2.60%
Community service	3,109,391	3,229,781	-3.73%
Interest and fiscal charges on			
Long-term liabilities	218,645	282,187	-22.52%
Total expenses	57,438,053	64,645,257	-11.15%
Increase (decrease) in net position	11,629,170	3,232,829	259.72%
Beginning net position	4,660,775	1,427,946	
Change in accounting principle	55,305	-	
Ending net position	\$ 16,345,250	\$ 4,660,775	



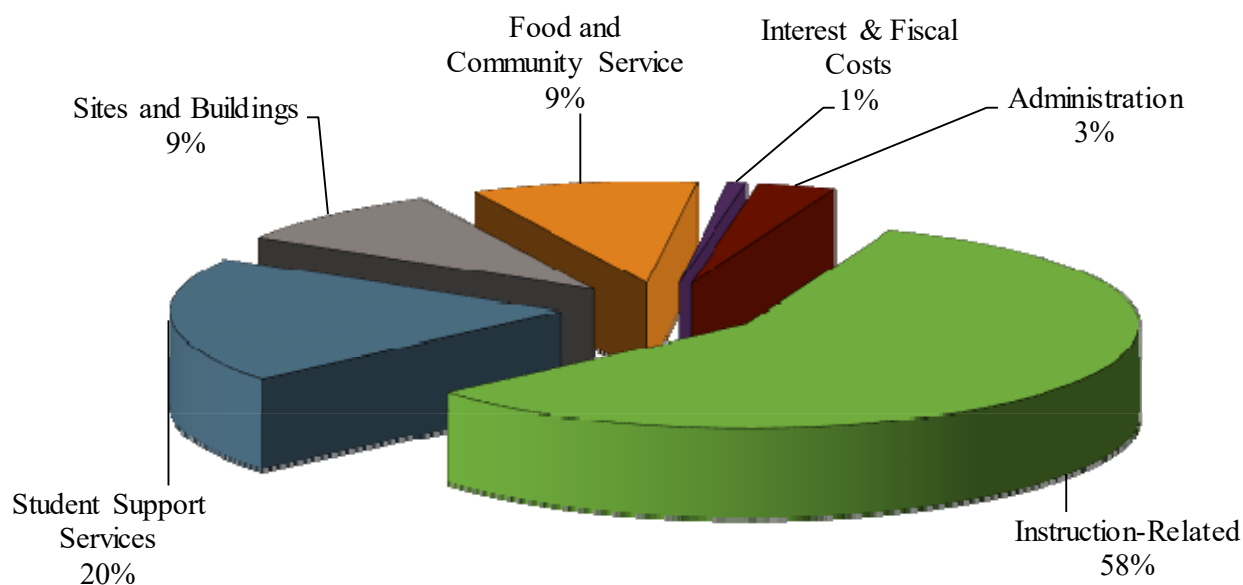
**Independent School District No. 656  
Management's Discussion and Analysis**

**Financial Analysis of the District as A Whole (Continued)**

**Figure A-3 Sources of District Revenue for Fiscal 2023**



**Figure A-4 District Expenses for Fiscal 2023**



The total cost of all programs and services was \$57,438,053 for fiscal year 2023. The District's expenses are predominately related to educating and caring for students (87%). (See Figure A-4).

The cost of all governmental activities this year was \$57,438,053.  
Some of the cost was paid by the users of the District's programs (\$2,850,020).

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

### Financial Analysis of the District as A Whole (Continued)

- The federal and state governments subsidized certain programs with grants and contributions (\$30,295,323).
- The District's remaining costs (\$24,292,710); however, were paid for by District taxpayers and taxpayers of the State of Minnesota.

Typically, the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 82% of those resources are spent on instruction and support services associated with education.

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

	Total Cost of Services		%	Net Cost of Services		%
	2023	2022	Change	2023	2022	Change
Administration	1,818,379	\$ 2,032,367	-10.53%	\$ 1,818,379	\$ 2,032,367	-10.53%
District support services	1,752,365	2,000,596	-12.41%	1,749,164	1,999,983	-12.54%
Regular instruction	21,240,595	26,607,936	-20.17%	6,532,658	11,227,986	-41.82%
Vocational education instruction	310,377	509,049	-39.03%	310,377	509,049	-39.03%
Special education instruction	11,635,525	11,852,459	-1.83%	1,168,090	2,983,048	-60.84%
Instructional support services	4,105,370	4,005,987	2.48%	2,722,650	2,619,433	3.94%
Pupil support services	5,569,475	6,614,102	-15.79%	5,130,414	5,845,752	-12.24%
Sites and buildings	5,247,377	5,022,266	4.48%	4,686,775	4,310,222	8.74%
Fiscal and other fixed cost programs	215,122	213,881	0.58%	215,122	213,881	0.58%
Food service	2,215,432	2,274,646	-2.60%	(254,169)	(960,611)	-73.54%
Community service	3,109,391	3,229,781	-3.73%	(5,395)	249,338	-102.16%
Interest and fiscal charges on long-term liabilities	218,645	282,187	-22.52%	218,645	282,187	-22.52%
<b>Total</b>	<b>\$ 57,438,053</b>	<b>\$ 64,645,257</b>	<b>-11.15%</b>	<b>\$ 24,292,710</b>	<b>\$ 31,312,635</b>	<b>-22.42%</b>

### Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$11,385,074. Revenues and other financing sources for the District's governmental funds were \$68,868,353 while total expenditures were \$69,283,771, for a decrease of \$415,418.

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

### General Fund

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

The majority of General Fund revenue is generated by state general education aid. The basic formula allowance in 2023 was \$6,863 per adjusted marginal cost per pupil unit (AMCPU). Other factors that influence the general education aid formula include operating referendum allowance, age of school buildings, transportation sparsity index, percent of eligible free and reduced students, number of English Learner (EL) students, number of Gifted and Talented students, and number of open enrolled students in and out of the District. Total general education aid was \$31,787,243, which represents 52.6% of total General Fund revenue. The other major General Fund revenue is state special education aid. Total special education aid in 2023 was \$8,229,477, 13.6% of total General Fund revenue. Other state formulas then determine what portion of the general fund revenue will be provided by property taxes. Property taxes totaled \$8,284,051, 13.7% of total General Fund revenue. Federal grants totaled \$8,501,478, 14.1% of total General Fund Revenue. After factoring in general education aid, special education aid and property taxes, which are all formula driven, and Federal grants, only 6.4% of General Fund revenues are generated by other miscellaneous state aids and local revenues such as fees or sales.

### General Fund – Revenues/Expenditures

The table below presents a summary of General Fund Revenues:

**Table A-5  
General Fund Revenues**

Fund	Year Ended		Change	
	June 30,		Increase (Decrease)	Percent
	2023	2022		
Local sources				
Property taxes	\$ 8,284,051	\$ 7,621,719	\$ 662,332	8.69%
Investment earnings	269,438	25,932	243,506	939.02%
Other	1,610,219	1,440,591	169,628	11.77%
State sources	41,770,173	40,291,711	1,478,462	3.67%
Federal sources	8,501,478	9,745,914	(1,244,436)	-12.77%
Total	<u>\$ 60,435,359</u>	<u>\$ 59,125,867</u>	<u>\$ 1,309,492</u>	<u>2.21%</u>

Revenues from the General Fund totaled \$60,435,359, an increase of 2.21% from the prior year. Property taxes increased in the general fund mainly due to decreased equalization aid from the state of Minnesota, resulting in a greater property tax burden on the local taxpayers. State sources increased due to an increase in special education needs, a decrease in enrollment which was partially offset by a 2.0% increase on the general education aid formula allowance. In addition, the District received decreased federal grants due to fewer COVID-19 funds received.

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

**General Fund – Revenues/Expenditures (Continued)**

The following schedule presents a summary of General Fund Expenditures:

**Table A-6  
General Fund Expenditures**

	Year Ended June 30,		Change	
	2023	2022	Increase (Decrease)	Percent
Salaries	\$ 33,005,998	\$ 33,399,510	\$ (393,512)	-1.18%
Employee benefits	12,162,444	12,405,121	(242,677)	-1.96%
Purchased services	9,479,864	8,360,138	1,119,726	13.39%
Supplies and materials	3,472,399	2,788,902	683,497	24.51%
Capital expenditures	681,876	1,221,808	(539,932)	-44.19%
Debt service	822,549	810,281	12,268	1.51%
Other expenditures	492,590	436,857	55,733	12.76%
Total	<u>\$ 60,117,720</u>	<u>\$ 59,422,617</u>	<u>\$ 695,103</u>	<u>1.17%</u>

Total General Fund expenditures increased 1.17% from the prior year. The COVID-19 pandemic resulted in the overall increase in expenditures as a result of federal grants in 2021 and 2022, but have slowly reduced spending to try and remain flat in 2023. The District employed additional teachers, academic aids, paraprofessionals, and support staff to meet the evolving demands, but had to cut in other areas to keep spending in check. Purchased services increased as a result of our District's transportation and Food Service contracts being utilized at 100% compared to previous years. The large increase in supplies and materials is due to upgrades made to the instructional technology devices. Capital expenditures decreased due to projects being coded to the capital facility fund.

Total General Fund balance increased \$417,567. Unassigned General Fund balance decreased by \$147,429 due to an increase in gas and utilities, as well as little utilization in the use of ESSER funding.

Fund balance is the single best measure of overall financial health. It is the goal of the Faribault Board of Education to maintain an unassigned fund balance of 9.5% of the general fund annual expenditure budget excluding Long-Term Facilities Maintenance and Student Activity accrued expenditures. For the fiscal year ended June 30, 2023, the Faribault School District is in compliance with that fund balance goal.

***General Fund Budgetary Highlights***

Actual revenues were \$1,298,251 over the final budget, a 2.2% variance. The variance is due to increased state revenue from contracting PSEO and for spending down more of the ESSER funds than planned. Expenditures were \$589,652 over budget, a 1.0% variance. The expenditure variance is mainly the result of increased expenditures due to adding staffing to accommodate special education needs.

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

### **General Fund – Revenues/Expenditures (Continued)**

#### ***General Fund Budgetary Highlights (Continued)***

The General Fund budget is adjusted throughout the year for changes in enrollment, changes in special education funding assumptions, changes in other state aids, and expenditure changes such as staffing costs, transportation, utilities and capital expenditures. In fiscal year 2023, revenue was adjusted for increased enrollment to the adopted budget, changes in special education funding assumptions, changes in ESSER funding utilization as well as additional ESSER opportunities, as well as true up for additional existing and additional grant awards. As for expenditures, the budget was increased throughout the year for changes in staffing and benefit assumptions, however, the District does not reduce the existing budgeted salaries and benefits when the positions are ongoing and increase in utility rates for the second half of the year.

#### **Food Service Fund**

The Food Service Fund balance increased by \$256,921 for an ending fund balance of \$1,863,361. A higher federal reimbursement rate due to the change in food service delivery models, an increase in CACFP meals, and an effective food service operation led to the year end result. The USDA increased the net cash surplus allowance to 6 months. Our current fund balance equals about eight months surplus.

#### **Community Service Fund**

The Community Service Fund balance decreased by \$51,362 for the combined restricted fund balances. New grant opportunities, increased fees for services, and intentional cost control measures implemented to counteract the loss to provide free childcare during the school year, resulted in this surplus, but additional non reimbursable costs in the School Readiness program lead the way to the negative fund balance as well as planned spending in the ECFE program to spend some of the fund balance.

#### **Debt Service Fund**

The Debt Service Fund revenues exceeded expenditures and other financing sources by \$19,893. The increase is the result of collecting 105% of expected debt service payments through taxes and levies, and the timing of the related prior year adjustments.

#### **Capital Projects Fund**

The District issued \$3,820,000 in Certificates of Participation in FY21. This issuance funded an early childhood addition at the Roosevelt Elementary site. In FY22, the project was completed and thus the fund decreased by \$2,592,440. The balance of this account, \$1,058,428 was used for additional projects at Roosevelt and Jefferson elementary schools. In 2023, the funding was spent on these projects to bring the fund balance to zero at the end of FY23.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

By the end of 2023, the District had invested approximately \$109 million in a broad range of capital assets, including school buildings, athletic facilities and fields, computers, and other technology equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was \$2.9 million. During FY23, The District disposed of \$7,739 in assets. The District also implemented GASB 96 which forced us to capitalize subscriptions that met certain requirements.

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

**Capital Assets and Debt Administration (Continued)**

**Capital Assets (Continued)**

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

	2023	2022	Percentage Change
Land	\$ 1,913,554	\$ 1,913,554	0.00%
Construction on progress	517,324	60,908	749.35%
Land improvements	5,554,981	5,309,401	4.63%
Buildings	42,959,381	44,729,783	-3.96%
Equipment and subscriptions	2,814,993	1,885,937	49.26%
Total	<u>\$ 53,760,233</u>	<u>\$ 53,899,583</u>	<u>-0.26%</u>

**Long-Term Liabilities**

At year-end, the District had \$10,691,090 in total long-term debt. See Table A-8. Included in this total, the District has \$1,550,716 in compensated absence liabilities. More detailed information about long-term liabilities can be found in Note 4 to the financial statements.

**Table A-8  
Long-Term Liabilities**

	Total Cost of Services 2023	2022	Percentage Change
General obligation bonds	\$ 3,350,000	\$ 5,480,000	-38.87%
Premium	168,803	221,188	-23.68%
Certificates of Participation	3,530,000	3,685,000	-4.21%
Lease Purchase Payable	1,878,466	2,302,535	-18.42%
Subscription Liability	12,480	-	N/A
Capital lease	200,625	256,366	-21.74%
Compensated absences payable	1,550,716	1,525,591	1.65%
Total	<u>\$ 10,691,090</u>	<u>\$ 13,470,680</u>	<u>-20.63%</u>

**Factors Bearing on the District's Future**

The District is dependent on the State of Minnesota for its revenue authority. The 2023 legislative session did offer 2.0% on the state aid formula which resulted in additional state aid to the District from the state. Unfortunately, these statutory formula increases are insufficient to meet our instructional needs and increased costs due to inflation. Each percent increase on the formula adds about 245,000 dollars in revenue. The legislative session, ending in May 2023, did provide more revenue as well as unfunded mandates for the District. With both the additional revenue and the additional expenses, the District will incur additional soft costs for the Business Office as well as regulatory issues.

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

### **Factors Bearing on the District's Future (Continued)**

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

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

The COVID-19 post pandemic brings uncertainty to the future financial picture, largely because of the federal economic uncertainty and inflationary pressures. The ending of the federal funding will cause a fiscal issue for fiscal year 2025.

### **Contacting the District's Financial Management**

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

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## **BASIC FINANCIAL STATEMENTS**

**Independent School District No. 656**  
**Statement of Net Position**  
**June 30, 2023**

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 16,254,037
Current property taxes receivable	5,480,912
Delinquent property taxes receivable	54,481
Accounts receivable	184,365
Due from Department of Education	5,449,478
Due from Federal Government through Department of Education	2,581,743
Due from other Minnesota school districts	420,277
Due from Federal Government	113,090
Due from other governmental units	54,176
Prepaid items	8,411
Capital assets	
Capital assets not being depreciated/amortized	
Land	1,913,554
Construction in progress	517,324
Capital assets being depreciated/amortized (net of depreciation)	
Land improvements	5,554,981
Buildings	42,959,381
Equipment	2,748,349
Subscription assets	66,644
Total assets	<u>84,361,203</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	13,148,460
Deferred outflows of resources related to other post employment benefits	827,896
Total deferred outflows of resources	<u>13,976,356</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 98,337,559</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 864,940
Salaries and benefits payable	5,195,680
Interest payable	77,447
Due to other Minnesota school districts	873,111
Due to other governmental units	38,098
Unearned revenue	97,421
Bond principal payable, net of premiums	
Payable within one year	2,175,000
Payable after one year	1,343,803
Certificate of Participation	
Payable within one year	155,000
Payable after one year	3,375,000
Lease liability	
Payable within one year	56,098
Payable after one year	144,527
Subscription liability	
Payable within one year	7,753
Payable after one year	4,727
Finance purchases from direct borrowing	
Payable within one year	436,710
Payable after one year	1,441,756
Compensated absences payable	
Payable within one year	191,982
Payable after one year	1,358,734
Net pension liability	41,305,066
Net other post employment benefit (OPEB) liability	2,513,748
Total liabilities	<u>61,656,601</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	11,184,688
Deferred inflows of resources related to OPEB	1,767,058
Deferred inflows of resources related to pensions	7,383,962
Total deferred inflows of resources	<u>20,335,708</u>
<b>Net Position</b>	
Net investment in capital assets	44,831,729
Restricted	
Debt service	498,382
Other purposes	3,937,647
Unrestricted	<u>(32,922,508)</u>
Total net position	<u>16,345,250</u>
 Total liabilities, deferred inflows of resources, and net position	 <u><u>\$ 98,337,559</u></u>

**Independent School District No. 656**  
**Statement of Activities**  
**Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
Governmental activities					
Administration	\$ 1,818,379	\$ -	\$ -	\$ -	\$ (1,818,379)
District support services	1,752,365	66	3,135	-	(1,749,164)
Elementary and secondary regular instruction	21,240,595	243,035	14,416,441	48,461	(6,532,658)
Vocational education instruction	310,377	-	-	-	(310,377)
Special education instruction	11,635,525	704,435	9,763,000	-	(1,168,090)
Instructional support services	4,105,370	25,757	1,019,308	337,655	(2,722,650)
Pupil support services	5,569,475	5,094	433,967	-	(5,130,414)
Sites and buildings	5,247,377	237,207	2,400	320,995	(4,686,775)
Fiscal and other fixed cost programs	215,122	-	-	-	(215,122)
Food service	2,215,432	402,206	2,067,395	-	254,169
Community education and services	3,109,391	1,232,220	1,882,566	-	5,395
Interest and fiscal charges on long-term debt	218,645	-	-	-	(218,645)
Total governmental activities	<u>\$ 57,438,053</u>	<u>\$ 2,850,020</u>	<u>\$ 29,588,212</u>	<u>\$ 707,111</u>	(24,292,710)
General revenues					
Taxes					
Property taxes, levied for general purposes					8,286,874
Property taxes, levied for community service					368,922
Property taxes, levied for debt service					2,029,587
State aid-formula grants					24,673,554
Other general revenues					40,590
Investment income					422,424
Gain of sale of assets					99,929
Total general revenues					<u>35,921,880</u>
Change in net position					11,629,170
Net position - beginning					4,660,775
Change in accounting principle (Note 11)					55,305
Net position - beginning, as restated					<u>4,716,080</u>
Net position - ending					<u>\$ 16,345,250</u>

**Independent School District No. 656**  
**Balance Sheet - Governmental Funds**  
**June 30, 2023**

	General	Food Service	Community Service	Debt Service
<b>Assets</b>				
Cash and investments	\$ 10,318,468	\$ 1,979,085	\$ 1,063,203	\$ 1,656,430
Current property taxes receivable	4,146,435	-	201,454	1,133,023
Delinquent property taxes receivable	40,682	-	2,038	11,761
Accounts receivable	131,561	-	52,804	-
Due from Department of Education	5,199,084	-	230,824	19,570
Due from Federal Government				
through Department of Education	2,447,937	29,219	104,587	-
Due from federal government	113,090	-	-	-
Due from other Minnesota				
school districts	417,619	2,658	-	-
Due from other governmental units	51,712	-	2,464	-
Prepaid items	8,411	-	-	-
Total assets	<u>\$ 22,874,999</u>	<u>\$ 2,010,962</u>	<u>\$ 1,657,374</u>	<u>\$ 2,820,784</u>
<b>Liabilities</b>				
Accounts payable	\$ 393,978	\$ 119,750	\$ 21,838	\$ -
Salaries and benefits payable	5,026,720	-	168,960	-
Due to other Minnesota school districts	865,246	-	7,865	-
Due to other governmental units	38,098	-	-	-
Unearned revenue	20,252	27,851	49,318	-
Total liabilities	<u>6,344,294</u>	<u>147,601</u>	<u>247,981</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - delinquent				
property taxes	40,682	-	2,038	11,761
Property taxes levied for				
subsequent year's expenditures	8,504,509	-	435,224	2,244,955
Total deferred inflows of resources	<u>8,545,191</u>	<u>-</u>	<u>437,262</u>	<u>2,256,716</u>
<b>Fund Balances</b>				
Nonspendable	327,238	-	-	-
Restricted	1,100,117	1,863,361	972,131	564,068
Unassigned	6,558,159	-	-	-
Total fund balances	<u>7,985,514</u>	<u>1,863,361</u>	<u>972,131</u>	<u>564,068</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 22,874,999</u>	<u>\$ 2,010,962</u>	<u>\$ 1,657,374</u>	<u>\$ 2,820,784</u>

<u>Building Construction</u>	<u>Total Governmental Funds</u>
\$ 269,050	\$ 15,286,236
-	5,480,912
-	54,481
-	184,365
-	5,449,478
-	2,581,743
-	113,090
-	420,277
-	54,176
-	8,411
<u>\$ 269,050</u>	<u>\$ 29,633,169</u>
\$ 269,050	\$ 804,616
-	5,195,680
-	873,111
-	38,098
-	97,421
<u>269,050</u>	<u>7,008,926</u>
-	54,481
-	11,184,688
<u>-</u>	<u>11,239,169</u>
-	327,238
-	4,499,677
-	6,558,159
<u>-</u>	<u>11,385,074</u>
<u>\$ 269,050</u>	<u>\$ 29,633,169</u>

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**Independent School District No. 656**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**June 30, 2023**

Total fund balances - governmental funds	\$ 11,385,074
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	108,716,718
Less accumulated depreciation/amortization	(54,956,485)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable, net of premiums	(3,518,803)
Certificate of participation	(3,530,000)
Lease liability	(200,625)
Subscription liability	(12,480)
Finance purchase from direct borrowing	(1,878,466)
Compensated absences payable	(1,550,716)
Net OPEB liability	(2,513,748)
Net pension liability	(41,305,066)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences in timing and estimates related to pension and OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	13,148,460
Deferred inflows of resources related to pensions	(7,383,962)
Deferred outflows of resources related to OPEB	827,896
Deferred inflows of resources related to OPEB	(1,767,058)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	54,481
The Health Internal Service Fund is used by management to charge the cost of the self-insured plan. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position and interfund activity is removed.	907,477
Governmental funds do not report a liability for accrued interest on bonds and other long-term debt until due and payable.	(77,447)
Total net position - governmental activities	<u><u>\$ 16,345,250</u></u>

**Independent School District No. 656**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2023**

	General	Food Service	Community Service	Debt Service
<b>Revenues</b>				
Local property taxes	\$ 8,284,051	\$ -	\$ 369,022	\$ 2,030,971
Other local and county revenues	1,853,246	101,979	1,591,397	48,973
Revenue from state sources	41,770,173	91,428	1,208,886	195,699
Revenue from federal sources	8,501,478	1,975,729	338,598	-
Sales and other conversion of assets	26,411	359,820	-	-
Total revenues	<u>60,435,359</u>	<u>2,528,956</u>	<u>3,507,903</u>	<u>2,275,643</u>
<b>Expenditures</b>				
Current				
Administration	2,138,067	-	-	-
District support services	1,603,317	-	-	-
Elementary and secondary regular instruction	23,902,658	-	-	-
Vocational education instruction	479,559	-	-	-
Special education instruction	13,992,850	-	-	-
Instructional support services	4,672,432	-	-	-
Pupil support services	6,349,833	-	115,552	-
Sites and buildings	5,261,793	-	-	-
Fiscal and other fixed cost programs	226,286	-	-	-
Food service	-	2,125,887	-	-
Community education and services	-	-	3,422,328	-
Capital outlay				
Administration	6,572	-	-	-
District support services	102,527	-	-	-
Elementary and secondary regular instruction	85,776	-	-	-
Special education instruction	39,053	-	-	-
Instructional support services	1,000	-	-	-
Sites and buildings	433,448	-	-	-
Food service	-	146,148	-	-
Community education and services	-	-	21,385	-
Debt service				
Principal	651,522	-	-	2,130,000
Interest and fiscal charges	171,027	-	-	125,750
Total expenditures	<u>60,117,720</u>	<u>2,272,035</u>	<u>3,559,265</u>	<u>2,255,750</u>
Excess of revenues over (under) expenditures	317,639	256,921	(51,362)	19,893
<b>Other Financing Sources</b>				
Proceeds from Sale of Capital Assets	<u>99,929</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	417,568	256,921	(51,362)	19,893
<b>Fund Balances</b>				
Beginning of year	<u>7,567,946</u>	<u>1,606,440</u>	<u>1,023,493</u>	<u>544,175</u>
End of year	<u>\$ 7,985,514</u>	<u>\$ 1,863,361</u>	<u>\$ 972,131</u>	<u>\$ 564,068</u>

See notes to basic financial statements



Building Construction	Total Governmental Funds
\$ -	\$ 10,684,044
20,563	3,616,158
-	43,266,186
-	10,815,805
-	386,231
<u>20,563</u>	<u>68,768,424</u>
-	2,138,067
-	1,603,317
-	23,902,658
-	479,559
-	13,992,850
-	4,672,432
-	6,465,385
168,542	5,430,335
-	226,286
-	2,125,887
-	3,422,328
-	6,572
-	102,527
-	85,776
-	39,053
-	1,000
910,459	1,343,907
-	146,148
-	21,385
-	2,781,522
-	296,777
<u>1,079,001</u>	<u>69,283,771</u>
(1,058,438)	(515,347)
-	99,929
(1,058,438)	(415,418)
<u>1,058,438</u>	<u>11,800,492</u>
<u>\$ -</u>	<u>\$ 11,385,074</u>

**Independent School District No. 656**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to the**  
**Statement of Activities - Governmental Funds**  
**Year Ended June 30, 2023**

Net change in fund balances - total governmental funds	\$ (415,418)
--	--------------

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives.

Capital outlays	2,685,925
Depreciation/amortization expense	(2,909,773)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.

(25,125)

Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in items related to pension on a full accrual perspective.

8,542,177

Governmental funds recognize OPEB contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to OPEB on a full accrual perspective.

337,154

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.

2,781,523

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus, requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

25,747

Governmental funds report bond premiums as an other financing source at the time of issuance. Premiums are reported as a liability in the government-wide financial statements and amortized over the life of the bond.

52,385

The self-insured Health Internal Service Fund is used by management to charge the cost of the self-insured plan. The change in net position is reported within the governmental activities in the Statement of Activities.

553,236

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

1,339

Change in net position - governmental activities

\$ 11,629,170

**Independent School District No. 656**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
<b>Revenues</b>				
Local property taxes	\$ 8,170,615	\$ 8,184,884	\$ 8,284,051	\$ 99,167
Other local and county revenues	1,298,414	1,601,322	1,853,246	251,924
Revenue from state sources	40,279,126	41,200,276	41,770,173	569,897
Revenue from federal sources	7,414,110	8,126,826	8,501,478	374,652
Sales and other conversion of assets	23,800	23,800	26,411	2,611
Total revenues	<u>57,186,065</u>	<u>59,137,108</u>	<u>60,435,359</u>	<u>1,298,251</u>
<b>Expenditures</b>				
Current				
Administration	1,966,369	1,850,603	2,138,067	287,464
District support services	1,677,034	1,495,912	1,603,317	107,405
Elementary and secondary regular instruction	24,031,978	24,436,673	23,902,658	(534,015)
Vocational education instruction	463,212	484,062	479,559	(4,503)
Special education instruction	12,505,292	12,743,314	13,992,850	1,249,536
Instructional support services	4,435,339	5,088,876	4,672,432	(416,444)
Pupil support services	6,639,838	6,530,894	6,349,833	(181,061)
Sites and buildings	5,018,294	5,332,119	5,261,793	(70,326)
Fiscal and other fixed cost programs	238,000	238,000	226,286	(11,714)
Capital outlay				
Administration	15,110	7,632	6,572	(1,060)
District support services	118,000	106,158	102,527	(3,631)
Elementary and secondary regular instruction	120,300	105,357	85,776	(19,581)
Special education instruction	25,750	23,250	39,053	15,803
Instructional support services	2,000	2,000	1,000	(1,000)
Pupil support services	400	400	-	(400)
Sites and buildings	191,241	276,313	433,448	157,135
Debt service				
Principal	634,082	634,082	651,522	17,440
Interest and fiscal charges	172,423	172,423	171,027	(1,396)
Total expenditures	<u>58,254,662</u>	<u>59,528,068</u>	<u>60,117,720</u>	<u>589,652</u>
Excess of revenues over (under) expenditures	(1,068,597)	(390,960)	317,639	708,599
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	<u>100,000</u>	<u>100,000</u>	<u>99,929</u>	<u>(71)</u>
Net change in fund balances	<u>\$ (968,597)</u>	<u>\$ (290,960)</u>	<u>417,568</u>	<u>\$ 708,528</u>
<b>Fund Balances</b>				
Beginning of year			<u>7,567,946</u>	
End of year			<u>\$ 7,985,514</u>	

**Independent School District No. 656**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - Food Service Special Revenue Fund**  
**Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
<b>Revenues</b>				
Other local and county revenues	\$ 81,000	\$ 116,500	\$ 101,979	\$ (14,521)
Revenue from state sources	69,000	55,544	91,428	35,884
Revenue from federal sources	1,878,260	1,938,684	1,975,729	37,045
Sales and other conversion of assets	413,732	152,852	359,820	206,968
Total revenues	<u>2,441,992</u>	<u>2,263,580</u>	<u>2,528,956</u>	<u>265,376</u>
<b>Expenditures</b>				
Current				
Food service	2,302,539	2,057,201	2,125,887	68,686
Capital outlay				
Food service	<u>127,500</u>	<u>205,490</u>	<u>146,148</u>	<u>(59,342)</u>
Total expenditures	<u>2,430,039</u>	<u>2,262,691</u>	<u>2,272,035</u>	<u>9,344</u>
Excess of revenues over expenditures	11,953	889	256,921	256,032
<b>Other Financing Sources</b>				
Transfers in	-	4,000	-	(4,000)
Total other financing sources	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>(4,000)</u>
Net change in fund balances	<u>\$ 11,953</u>	<u>\$ 4,889</u>	256,921	<u>\$ 252,032</u>
<b>Fund Balances</b>				
Beginning of year			<u>1,606,440</u>	
End of year			<u>\$ 1,863,361</u>	

**Independent School District No. 656**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - Community Service Special Revenue Fund**  
**Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>Revenues</b>				
Local property taxes	\$ 378,487	\$ 378,487	\$ 369,022	\$ (9,465)
Other local and county revenues	1,253,035	1,468,563	1,591,397	122,834
Revenue from state sources	1,308,565	1,225,320	1,208,886	(16,434)
Revenue from federal sources	272,735	212,391	338,598	126,207
Total revenues	<u>3,212,822</u>	<u>3,284,761</u>	<u>3,507,903</u>	<u>223,142</u>
<b>Expenditures</b>				
Current				
Pupil support services	112,210	144,080	115,552	(28,528)
Community education and services	3,127,543	3,334,085	3,422,328	88,243
Capital outlay				
Community education and services	13,291	22,334	21,385	(949)
Total expenditures	<u>3,253,044</u>	<u>3,500,499</u>	<u>3,559,265</u>	<u>58,766</u>
Net change in fund balances	<u>\$ (40,222)</u>	<u>\$ (215,738)</u>	(51,362)	<u>\$ 164,376</u>
<b>Fund Balances</b>				
Beginning of year			<u>1,023,493</u>	
End of year			<u>\$ 972,131</u>	

**Independent School District No. 656**  
**Statement of Net Position - Proprietary Funds**  
**As of June 30, 2023**

	Governmental Activities - Health Insurance Internal Service Fund
<b>Assets</b>	
Current	
Cash and cash equivalents	\$ 967,801
<b>Liabilities</b>	
Current	
Incurred but not reported claims	\$ 60,324
<b>Net Position</b>	
Unrestricted	907,477
Total liabilities and net position	\$ 967,801

**Independent School District No. 656**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Proprietary Funds**  
**Year Ended June 30, 2023**

	Governmental Activities - Health Insurance Internal Service Fund
<b>Operating Revenue</b>	
Charges for services	<u>\$ 2,737,324</u>
<b>Operating Expenses</b>	
Insurance	<u>2,184,088</u>
Operating income	553,236
<b>Net Position</b>	
Beginning of year	<u>354,241</u>
End of year	<u><u>\$ 907,477</u></u>

**Independent School District No. 656**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended June 30, 2023**

	Governmental Activities - Internal Service Funds
<b>Cash Flows - Operating Activities</b>	
Receipts from District contributions	\$ 2,737,324
Employee claims paid	(2,294,960)
Net cash flows - operating activities	<u>442,364</u>
<b>Cash and Cash Equivalents</b>	
Beginning of year	<u>525,437</u>
End of year	<u><u>\$ 967,801</u></u>
<b>Reconciliation of Operating Income to Net Cash Flows - Operating Activities</b>	
Operating income	\$ 553,236
Adjustments to reconcile operating income to net cash flows - operating activities	
Incurred but not reported claims	<u>(110,872)</u>
Net cash flows - operating activities	<u><u>\$ 442,364</u></u>



**Independent School District No. 656**  
**Statement of Fiduciary Net Position**  
**June 30, 2023**

	<u>OPEB Trust Fund</u>
<b>Assets</b>	
Current	
Investments	
Brokered money markets	\$ 5,154
Mutual funds	<u>2,336,757</u>
Total assets	<u>\$ 2,341,911</u>
<b>Liabilities</b>	
Accounts payable	<u>\$ 197</u>
<b>Net Position</b>	
Held in Trust for OPEB	<u><u>\$ 2,341,714</u></u>

**Statement of Changes in Fiduciary Net Position**  
**Year Ended June 30, 2023**

	<u>OPEB Trust Fund</u>
<b>Additions</b>	
Investment income	<u>\$ 158,330</u>
<b>Deductions</b>	
Health insurance benefits	187,848
Administration fees	<u>17,356</u>
Total deductions	<u>205,204</u>
Change in net position	(46,874)
<b>Net Position Held in Trust for OPEB</b>	
Beginning of year	<u>2,388,588</u>
End of year	<u><u>\$ 2,341,714</u></u>

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**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. Reporting Entity**

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

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

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

The student activity accounts of the District are under board control and are reported in the General Fund.

**B. Basic Financial Statement Information**

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

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statement Information (Continued)**

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

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

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

**C. Measurement Focus and Basis of Accounting**

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

**1. Revenue Recognition**

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

**2. Recording of Expenditures**

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

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**Description of Funds:**

**Major Funds:**

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

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

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

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

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

**Proprietary Fund:**

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

**Fiduciary Fund:**

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

**D. Deposits and Investments**

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

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Deposits and Investments (Continued)**

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

**District Funds Other than OPEB Trust Fund**

Cash and investments at June 30, 2023, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF), MNTrust Flex Term Series, mutual funds, MNTrust investment shares portfolio and brokered certificates of deposit. In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust shares are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. Investments in the MSDLAF + Max must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions.

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

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

**OPEB Trust Fund**

These funds represent investments administered by the District's OPEB Trust Fund investment managers. As of June 30, 2023, they were comprised of brokered money markets and mutual funds. The District's investment policy extends to the OPEB Trust Fund investments.

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

**E. Property Tax Receivable**

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2022, less various components, and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2023. The remaining portion of the levy will be recognized when measurable and available. Property taxes levied for subsequent year's expenditures are reported as deferred inflows of resources.

**G. Prepaid Items**

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

**H. Property Taxes**

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

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

**I. Capital Assets**

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

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

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 3 to 15 years for equipment.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Capital Assets (Continued)**

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

**J. Right-to-Use Lease Assets/Lease Liabilities**

The District recorded right-to-use lease assets as a result of implementing GASB Statement No. 87, Leases. The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the lease liability plus any payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

Key estimates and judgments related to leases include (1) the discount rate, (2) lease term, (3) lease payments, and (4) amortization.

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 uses the interest rate of credit line at the District's bank. 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 the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a re-measurement of the leases and will remeasure the right-to-use lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liability.

**K. Subscription-Based Information Technology Arrangements**

The District recorded right-to-use subscription assets as a result of implementing GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The right-to-use subscription assets are initially measured at the present value at the time of inception. The right-to-use assets are amortized on a straight-line basis over the life of the related subscription.

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 uses the interest rate of credit line at the District's bank. The subscription term includes the noncancellable period of the subscription.

The District monitors changes in circumstances that would require a re-measurement of the subscription and will remeasure the right-to-use subscription assets and liabilities if certain changes occur that are expected to significantly affect the amount of the subscription liability.



**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Deferred Outflows/Inflows of Resources**

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

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

**M. Long-Term Obligations**

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

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

**N. Compensated Absences**

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Compensated Absences (Continued)**

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

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

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2023, by employees currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. Under this "vesting method", accruals for those employees expected to become eligible in the future are based on assumptions concerning the probability that the employees will become eligible to receive termination payments (vest) at some point in the future. The District's policy is to record a liability for the teachers lump sum payment for those individuals that are eligible to receive the payments.

**O. Pensions**

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

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**P. Postemployment Benefits Other Than Pensions (OPEB)**

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

**Q. Fund Equity**

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

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include amounts set aside for inventory and prepaid items.
- **Restricted Fund Balances** – These amounts are subject to externally enforceable legal restrictions by either a) creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- **Committed Fund Balances** – These amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.
- **Assigned Fund Balances** – Amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. The School Board delegates the Superintendent and the Director of Finance and Operations the power to assign balances for specific purposes.
- **Unassigned Fund Balances** – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

The District has a minimum fund balance policy, which identifies a minimum unassigned General Fund balance of 9.5% of the annual budgeted expenditures excluding Long Term Facilities Maintenance and Student Activity Account expenditures.

**Independent School District No. 656  
Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**R. Net Position**

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

**S. Use of Estimates**

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

**T. Budgetary Information**

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

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

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

*District Funds Other than OPEB Trust Fund*

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

**Custodial Credit Risk – Deposits:** For deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows *Minnesota Statutes* for deposits, which requires that a district's deposits to be collateralized as required by *Minnesota Statutes* § 118A.03 for any amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, FCUA, or other federal deposit coverage.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits (Continued)**

As of June 30, 2023, the District's bank balances were not exposed to custodial credit risk because they were fully insured through FDIC and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

As of June 30, 2023, the District's funds other than OPEB Trust Fund had the following deposits:

Checking	\$ 1,749,265
Savings	940,759
Certificates of deposit	<u>3,215,000</u>
Total	<u><u>\$ 5,905,024</u></u>

**B. Investments**

*District Funds Other than OPEB Trust Fund*

As of June 30, 2023, the District had the following investments:

Investment Type	Maturities Less than 1 Year
MSDLAF+ Liquid Class	\$ 113,227
MSDLAF+ Max Class	133,750
MNTrust Investment Shares	
Portfolio	8,472,643
Mutual Funds	123
Brokered Certificates of Deposit	743,004
MNTrust Flex Term Series	<u>883,456</u>
Total Investments	<u><u>\$ 10,346,203</u></u>

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

*District Funds Other than OPEB Trust Fund (Continued)*

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. As of June 30, 2023, the District's investments in MSDLAF and MSDLAF+ Max Class were rated AAAM by S&P. The remaining investments are not rated.

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

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

The District has the following recurring fair value measurements as of June 30, 2023.

- \$743,004 of \$10,346,203 are valued using interactive data (level 2 inputs)

*OPEB Trust Fund*

As of June 30, 2023, the District's OPEB Trust Fund had the following investments:

<u>Investment Type</u>	<u>Maturities</u>
	<u>Less than 1 Year</u>
Brokered money markets	\$ 5,154
Mutual funds	<u>2,336,757</u>
Total investments	<u>\$ 2,341,911</u>

**Credit Risk:** As of June 30, 2023, the District's OPEB Trust Fund investments in the brokered money markets and mutual funds were unrated.

- \$2,341,911 of \$2,341,911 are valued using interactive data (Level 2 inputs).

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Deposits and Investments**

The following is a summary of deposits and investments as of June 30, 2023:

District funds other than OPEB trust fund	
Petty Cash	\$ 2,810
Deposits (Note 2.A.)	5,905,024
Investments (Note 2.B.)	10,346,203
OPEB Trust Fund	
Investments (Note 2.B.)	<u>2,341,911</u>
Total deposits and investments	<u><u>\$ 18,595,948</u></u>

Deposits and investments are presented in the June 30, 2023, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 16,254,037
Statement of Fiduciary Net Position	
Investments	<u>2,341,911</u>
Total deposits and investments	<u><u>\$ 18,595,948</u></u>

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Change in Accounting Principle	Increases	Decreases	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land	\$ 1,913,554	\$ -	\$ -	\$ -	\$ 1,913,554
Construction in progress	60,908	-	995,110	538,694	517,324
Total capital assets not being depreciated	1,974,462	-	995,110	538,694	2,430,878
Capital assets being depreciated/amortized					
Land improvements	10,074,398	-	699,616	-	10,774,014
Buildings and improvements	87,751,706	-	300,032	-	88,051,738
Leased equipment	305,546	-	-	-	305,546
Subscription asset	-	84,498	-	-	84,498
Equipment	5,847,922	-	1,229,861	7,739	7,070,044
Total capital assets being depreciated/amortized	103,979,572	84,498	2,229,509	7,739	106,285,840
Less accumulated depreciation/amortization for					
Land improvements	4,764,997	-	454,036	-	5,219,033
Buildings and improvements	43,021,923	-	2,070,434	-	45,092,357
Leased equipment	30,555	-	61,109	-	91,664
Subscription asset	-	-	17,854	-	17,854
Equipment	4,236,976	-	306,340	7,739	4,535,577
Total accumulated depreciation/amortization	52,054,451	-	2,909,773	7,739	54,956,485
Total capital assets being depreciated/amortized, net	51,925,121	84,498	(680,264)	-	51,329,355
Governmental activities, capital assets, net	<u>\$ 53,899,583</u>	<u>\$ 84,498</u>	<u>\$ 314,846</u>	<u>\$ 538,694</u>	<u>\$ 53,760,233</u>



**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation/amortization expense for the year ended June 30, 2023, was charged to the following governmental functions:

Administration	\$ 2,597
District support services	61,377
Elementary and secondary regular instruction	2,597,031
Vocational education	11,522
Special education	1,828
Instructional support services	59,093
Pupil support services	26,962
Sites and buildings	125,758
Food service	22,945
Community service	<u>660</u>
Total depreciation/amortization expense	<u><u>\$ 2,909,773</u></u>

**NOTE 4 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term liabilities						
G.O. bonds, including refunding bonds						
2017A School Building Refunding Bonds	03/14/17	2.00%	\$ 9,780,000	02/01/24	\$ 2,000,000	\$ 2,000,000
2019A Tax Abatement Bonds	04/17/19	3.00%	1,845,000	02/01/30	1,350,000	175,000
Total G.O. bonds					<u>3,350,000</u>	<u>2,175,000</u>
Certificates of Participation						
2020A Certificate of Participation	12/17/20	3.00%	3,820,000	10/01/40	3,530,000	155,000
Unamortized bond premium					168,803	-
Lease Liability					200,625	56,098
Subscription Liability					12,480	7,753
Financed purchase from direct borrowing					1,878,466	436,710
Compensated absences					<u>1,550,716</u>	<u>191,982</u>
Total all long-term liabilities					<u><u>\$ 10,691,090</u></u>	<u><u>\$ 3,022,543</u></u>

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments for Bonds and Certificate of Participation**

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

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2024	\$ 2,175,000	\$ 57,875	\$ 2,232,875
2025	180,000	32,550	212,550
2026	185,000	27,075	212,075
2027	195,000	21,375	216,375
2028	200,000	15,450	215,450
2029-2030	415,000	12,525	427,525
Total	<u>\$ 3,350,000</u>	<u>\$ 166,850</u>	<u>\$ 3,516,850</u>

Year Ending June 30,	Certificates of Participation		
	Principal	Interest	Total
2024	\$ 155,000	\$ 78,375	\$ 233,375
2025	160,000	73,650	233,650
2026	165,000	68,775	233,775
2027	170,000	63,750	233,750
2028	175,000	58,575	233,575
2029-2033	960,000	224,125	1,184,125
2034-2038	1,055,000	122,550	1,177,550
2039-2041	690,000	20,900	710,900
Total	<u>\$ 3,530,000</u>	<u>\$ 710,700</u>	<u>\$ 4,240,700</u>

**C. Changes in Long-Term Liabilities**

	Beginning Balance	Change in Accounting Principle	Additions	Reductions	Ending Balance
Long-term liabilities					
G.O. bonds	\$ 5,480,000	\$ -	\$ -	\$ 2,130,000	\$ 3,350,000
Unamortized bond premium	221,188	-	-	52,385	168,803
Certificates of participation	3,685,000	-	-	155,000	3,530,000
Lease liability	256,366	-	-	55,741	200,625
Subscription liability	-	29,193	-	16,713	12,480
Finance purchase from direct borrowing	2,302,535	-	-	424,069	1,878,466
Compensated absences	1,525,591	-	1,379,769	1,354,644	1,550,716
Total long-term liabilities	<u>\$ 13,470,680</u>	<u>\$ 29,193</u>	<u>\$ 1,379,769</u>	<u>\$ 4,188,552</u>	<u>\$ 10,691,090</u>

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**D. Finance Purchases from Direct Borrowing**

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

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

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

Minimum annual principal and interest payments required to retire the finance purchase from direct borrowing are as follows:

Year Ending June 30,	Finance Purchase from Direct Borrowing		
	Principal	Interest	Total
2024	\$ 436,710	\$ 54,956	\$ 491,666
2025	385,084	41,868	426,952
2026	290,636	30,583	321,219
2027	192,316	23,168	215,484
2028	157,811	17,258	175,069
2029-2031	415,909	20,370	436,279
Total	<u>\$ 1,878,466</u>	<u>\$ 188,203</u>	<u>\$ 2,066,669</u>

**D. Lease Liability**

The District entered into a lease agreement for copier machines on July 26, 2021. Monthly payments of \$6,401 are due for 60 months, using an annual interest rate of 9.01%. The capital assets related to the copier lease have been capitalized and are being depreciated.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**D. Lease Liability (Continued)**

Minimum annual principal and interest payments required to retire the lease liability are as follows:

Year Ending June 30,	Lease Liability		
	Principal	Interest	Total
2024	\$ 56,098	\$ 20,716	\$ 76,814
2025	71,238	5,576	76,814
2026	73,289	3,525	76,814
Total	<u>\$ 200,625</u>	<u>\$ 29,817</u>	<u>\$ 230,442</u>

**E. Subscription Liability**

On June 23, 2022, the District entered into a subscription-based information technology arrangement (SBITA) with Goodheart-Willcox Publisher. The arrangement expires on June 30, 2029. The balance was paid at inception of the agreement.

On March 1, 2023, the District entered into a subscription-based information technology arrangement (SBITA) with ParentSquare for Engage 2023 software. The arrangement expires on June 30, 2025. The first payment is not due until Fiscal Year 2024.

On April 14, 2023, the District entered into a subscription-based information technology arrangement (SBITA) with Project Lead The Way, Inc. The arrangement expires on June 30, 2024.

Year Ending June 30,	Subscription Liability		
	Principal	Interest	Total
2024	\$ 7,753	\$ 797	\$ 8,550
2025	4,727	222	4,949
Total	<u>\$ 12,480</u>	<u>\$ 1,019</u>	<u>\$ 13,499</u>

**NOTE 5 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ended June 30, 2023.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 5 – RISK MANAGEMENT (CONTINUED)**

Starting during the year ended June 30, 2021, the District provides a medical program. All funds of the District participate in the program and make payments to the Health Insurance Self-Insurance Internal Service Fund. Based on requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the basic financial statements indicates that it is probable a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated. Interfund premiums are charged to user funds as quasi-external transactions. The District has stop loss coverage of \$125,000 for the Health Self-Insurance Internal Service Fund. The total claims liability reported in the Fund at June 30, 2023, was \$60,324 and includes amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability a loss has occurred and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amounts are as follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Claims Expense and Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2022	\$ 118,328	\$ 2,537,460	\$ 2,484,592	\$ 171,196
2023	171,196	1,983,569	2,094,441	60,324

**NOTE 6 – FUND BALANCES/NET POSITION**

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balances**

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

	General Fund	Food Service	Community Service	Debt Service	Total
Nonspendable					
Long-Term Receivable	\$ 318,827	\$ -	\$ -	\$ -	\$ 318,827
Prepaid Items	8,411	-	-	-	8,411
Total nonspendable	<u>327,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>327,238</u>
Restricted for					
Student activities	108,719	-	-	-	108,719
Staff development	44,539	-	-	-	44,539
Operating Capital	306,646	-	-	-	306,646
Area Learning Center	481,722	-	-	-	481,722
Safe Schools Levy	149,335	-	-	-	149,335
Long-Term Facilities Maintenance	9,156	-	-	-	9,156
Debt Service	-	-	-	564,068	564,068
Community Services	-	-	9,559	-	9,559
Community Education	-	-	417,422	-	417,422
Early Childhood and Family Education	-	-	192,083	-	192,083
School Readiness	-	-	205,966	-	205,966
Adult Basic Education	-	-	147,101	-	147,101
Food Service	-	1,863,361	-	-	1,863,361
Total restricted	<u>1,100,117</u>	<u>1,863,361</u>	<u>972,131</u>	<u>564,068</u>	<u>4,499,677</u>
Unassigned for					
General Purposes	<u>6,558,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,558,159</u>
Total fund balance	<u>\$ 7,985,514</u>	<u>\$ 1,863,361</u>	<u>\$ 972,131</u>	<u>\$ 564,068</u>	<u>\$ 11,385,074</u>

Nonspendable for Long-Term Receivable – This balance represents a portion of the fund balance that is not available since the amounts have not yet been received by the District.

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

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

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

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balances (Continued)**

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100% of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* § 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

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

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* § 123B.595, subd. 12). The balance as of June 30, 2022, is a deficit (negative) \$6,473, which is presented within unassigned fund balance for the purposes of reporting in accordance with generally accepted accounting principles.

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

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

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

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

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

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

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**B. Net Position**

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

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was (\$5,337,052). The components of pension expense are noted in the following plan summaries.

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

**Teachers' Retirement Association**

**A. Plan Description**

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

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

**B. Benefits Provided**

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



**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

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

*Tier I Benefits*

<u>Tier I</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:

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

*Tier II Benefits*

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

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

*Tier II Benefits (Continued)*

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

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

**C. Contribution Rate**

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

	June 30, 2021		June 30, 2022		June 30, 2023	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	12.13%	11.0%	12.34%	11.0%	12.55%
Coordinated	7.5%	8.13%	7.5%	8.34%	7.5%	8.55%

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

The following is a reconciliation of employer contributions in TRA's fiscal year 2022 ACFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts are reported in thousands.

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

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions**

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Valuation date	July 1, 2022
Measurement date	June 30, 2022
Experience study	June 28, 2019 (demographic and economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028.
Projected salary increase	2.85% 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 2019 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 projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	33.5 %	5.10 %
International stocks	16.5	5.30
Private markets	25.0	5.90
Fixed income	25.0	0.75
Total	<u>100.0 %</u>	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 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 2021 valuation:

- None

**E. Discount Rate**

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability**

On June 30, 2023, the District reported a liability of \$32,830,631 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.4100% at the end of the measurement period and 0.3894% 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	\$ 32,830,631
State's proportionate share of the net pension liability associated with the District	2,434,735

For the year ended June 30, 2023, the District recognized pension expense of (\$6,481,245). Included in this amount, the District recognized \$334,783 as pension expense for the support provided by direct aid.

On June 30, 2023, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 454,619	\$ 273,591
Net collective difference between projected and actual earnings on plan investments	1,449,781	-
Changes of assumptions	4,994,860	6,645,997
Changes in proportion	1,201,726	300,275
Contributions to TRA subsequent to the measurement date	2,168,474	-
	<u>          </u>	<u>          </u>
Total	<u>\$ 10,269,460</u>	<u>\$ 7,219,863</u>

The \$2,168,474 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, 2024.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

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

Year Ended June 30,	Pension Expense Amount
2024	\$ (5,477,826)
2025	1,087,434
2026	619,841
2027	4,478,274
2028	173,400
Total	<u>\$ 881,123</u>

**G. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.0%) and 1 percent higher (8.0%) than the current rate.

District proportionate share of NPL		
1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
\$ 51,755,702	\$ 32,830,631	\$ 17,317,974

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

**H. Pension Plan Fiduciary Net Position**

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Public Employees' Retirement Association**

**A. Plan Description**

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

**General Employees Retirement Plan**

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

**B. Benefits Provided**

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

**General Employees Plan Benefits**

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

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



**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Public Employees' Retirement Association (Continued)**

**C. Contributions**

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

**General Employees Fund Contributions**

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2023, were \$664,757. The District's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

**General Employees Fund Pension Costs**

At June 30, 2023, the District reported a liability of \$8,474,435 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 \$248,362.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.1070% at the end of the measurement period and 0.1078% for the beginning of the period.

District's proportionate share of net pension liability	\$ 8,474,435
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>248,362</u>
Total	<u><u>\$ 8,722,797</u></u>

For the year ended June 30, 2023, the District recognized pension expense of \$1,144,193 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$37,111 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

At June 30, 2023, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 70,785	\$ 90,960
Changes in actuarial assumptions	1,931,824	33,694
Net collective difference between projected and actual investment earnings	115,706	-
Change in proportion	95,928	39,445
Contributions paid to PERA subsequent to the measurement date	664,757	-
Total	<u>\$ 2,879,000</u>	<u>\$ 164,099</u>

The \$664,757 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2024	\$ 762,208
2025	808,230
2026	(286,679)
2027	766,385
Total	<u>\$ 2,050,144</u>

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Public Employees' Retirement Association (Continued)**

**E. Long-Term Expected Return on Investment**

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

<u>Asset Class</u>	<u>Final Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	33.5 %	5.10 %
International stocks	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

**F. Actuarial Methods and Assumptions**

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. 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% was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

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.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

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

**Public Employees' Retirement Association (Continued)**

**F. Actuarial Methods and Assumptions (Continued)**

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

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**G. Discount Rate**

The discount rate used to measure the total pension liability in 2022 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**H. Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
District's proportionate share of the PERA net pension liability	\$ 13,385,814	\$ 8,474,435	\$ 4,446,346

**I. Pension Plan Fiduciary Net Position**

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description (Continued)**

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

**B. Benefits Provided**

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

Certain non-teaching employees who are at least 55 years of age with year of service, depending upon service group, ranging from three years to 15 years or satisfying Rule of 90 are also eligible to remain on the District's medical insurance until becoming eligible for Medicare. The District's contribution ranges, depending upon service group, from \$100 to \$300 per month, or contributing the single premium amount plus \$1,200 to a VEBA, or \$3,125 to an HSA if on a high deductible plan.

**C. Members**

As of July 1, 2021, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	28
Active employees	<u>529</u>
Total	<u><u>557</u></u>

**D. Contributions**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2023, the District contributed \$427,385 to the plan.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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Key Methods and Assumptions Used in Valuation of Total OPEB Liability

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Investment rate of return	5.80%, net of investment expense
Salary increases	Service graded table
Inflation	2.50%
Healthcare cost trend increases	6.50% in 2021, decreasing to 5.0% over five years, and then to 4.0% over the next 48 years.
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale

The following are changes to plan provisions since the prior valuation:

- None

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

- The inflation rate was changed from 2.00% to 2.50%.
- The discount rate was changed from 2.60% to 4.00%.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Final Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	33 %	6.70%
Fixed income	50	4.80%
International equity	17	6.70%
Total	100 %	5.80%

The details of the investments and the investment policy are described in Note 2 of the District's basic financial statements. For the year ended June 30, 2022, the annual money-weighted rate of return on investments was -12.5%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**F. Discount Rate**

The discount rate used to measure the total OPEB liability was 4.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**G. Changes in Net OPEB Liability**

The District's total OPEB liability of \$2,513,748 was measured as of June 30, 2022, and was determined by an actuarial valuation as of July 1, 2021.

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at June 30, 2021	\$ 5,130,544	\$ 2,893,705	\$ 2,236,839
Changes for the year			
Service cost	348,326	-	348,326
Interest	137,915	-	137,915
Assumption changes	(363,281)	-	(363,281)
Plan changes	-	-	-
Differences between expected and actual economic experience	-	(530,060)	530,060
Employer contributions	-	227,444	(227,444)
Projected investment returns	-	167,835	(167,835)
Benefit payments	(351,168)	(351,168)	-
Administrative expense	-	(19,168)	19,168
Net changes	(228,208)	(505,117)	276,909
Balances at June 30, 2022	\$ 4,902,336	\$ 2,388,588	\$ 2,513,748

Plan fiduciary net position as a percentage of the total OPEB liability is 48.7%.

**H. OPEB Liability Sensitivity**

The following presents the District's net OPEB liability calculated using the discount rate of 4.0% well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (3.0%)	Current Discount Rate (4.0%)	1% Increase in Discount Rate (5.0%)
Net OPEB Liability	\$ 2,830,556	\$ 2,513,748	\$ 2,209,634



**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**H. OPEB Liability Sensitivity (Continued)**

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

	1% Decrease (5.25% Decreasing to 4.00%)	Current (6.25% Decreasing to 5.00%)	1% Increase (7.25% Decreasing to 6.00%)
Net OPEB Liability	\$ 2,059,040	\$ 2,513,748	\$ 3,058,459

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

For the year ended June 30, 2023, the District recognized OPEB expense of (\$33,493). At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Investment losses	\$ 184,648	\$ -
Liability gains	-	1,194,268
Changes of assumptions	215,863	572,790
Employer Contributions	427,385	-
Total	<u>\$ 827,896</u>	<u>\$ 1,767,058</u>

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**I. OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to OPEB (Continued)**

The \$427,385 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Total
2024	\$ (371,071)
2025	(376,614)
2026	(379,401)
2027	(28,993)
2028	(158,575)
Thereafter	<u>(51,893)</u>
Total	<u><u>\$ (1,366,547)</u></u>

**NOTE 9 – JOINT POWERS AGREEMENT**

The District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a Board of Education member and the superintendent or another District employee) from each of the participating districts. Any district may withdraw from the Cooperative prior to the issuance of any project financing instruments, provided that the withdrawing district reimburses the Cooperative for its pro rata portion of the total development or other project costs, or other obligations incurred by the Cooperative. Once financing instruments, other than Clean Renewable Energy Bonds (CREBs), have been issued, a district may withdraw provided it prepays the outstanding balance of its pro rata portion of any outstanding finance instruments. Upon issuance of the CREBs, no district may withdraw membership until the CREBs have been repaid in full. The District has not committed any financial resources to the Cooperative as of June 30, 2023.

**NOTE 10 – JOINTLY GOVERNED ORGANIZATION**

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

**Independent School District No. 656**  
**Notes to Basic Financial Statements**

**NOTE 10 – JOINTLY GOVERNED ORGANIZATION (CONTINUED)**

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

**NOTE 11 – COMMITMENTS**

	Revised Contract Amount	Total Completed	Commitment Outstanding
Roosevelt Boiler Replacement	<u>\$ 877,000</u>	<u>\$ 403,500</u>	<u>\$ 473,500</u>

**NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2023, the District implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This resulted in the District recognizing a subscription asset and subscription liability. The net effect of these items resulted in a restatement of the beginning Net Position by \$55,305.

**NOTE 13 – SUBSEQUENT EVENT**

The District will be issuing bonds, dated January 22, 2024, for a total amount of \$10,770,000.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 656**  
**Schedule of Changes in Net OPEB Liability**  
**and Related Ratios**

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Total OPEB Liability				
Service cost	\$ 348,326	\$ 416,793	\$ 431,991	\$ 382,611
Interest	137,915	170,746	194,604	246,581
Differenced between expected and actual experience	-	(916,935)	-	(1,258,407)
Changes of assumptions	(363,281)	170,220	164,992	(609,955)
Plan changes	-	35,675	-	-
Benefit payments	(351,168)	(430,834)	(465,637)	(567,189)
Other changes	-	-	-	14,278
Net change in total OPEB liability	<u>(228,208)</u>	<u>(554,335)</u>	<u>325,950</u>	<u>(1,792,081)</u>
Beginning of year	<u>5,130,544</u>	<u>5,684,879</u>	<u>5,358,929</u>	<u>7,151,010</u>
End of year	<u>\$ 4,902,336</u>	<u>\$ 5,130,544</u>	<u>\$ 5,684,879</u>	<u>\$ 5,358,929</u>
Plan Fiduciary Net Pension (FNP)				
Employer contributions	\$ 227,444	\$ 284,354	\$ 266,513	\$ 3,018,189
Projected investment income	167,835	167,835	133,389	90,754
Differences between expected and actual experience	(530,060)	417,555	-	-
Benefit payments	(351,168)	(430,834)	(465,637)	(567,189)
Administrative expense	(19,168)	(17,420)	(3,084)	(720)
Other changes	-	-	-	-
Net change in plan fiduciary net position	<u>(505,117)</u>	<u>421,490</u>	<u>(68,819)</u>	<u>2,541,034</u>
Beginning of year	<u>2,893,705</u>	<u>2,472,215</u>	<u>2,541,034</u>	<u>-</u>
End of year	<u>\$ 2,388,588</u>	<u>\$ 2,893,705</u>	<u>\$ 2,472,215</u>	<u>\$ 2,541,034</u>
Net OPEB liability	<u>\$ 2,513,748</u>	<u>\$ 2,236,839</u>	<u>\$ 3,212,664</u>	<u>\$ 2,817,895</u>
Plan FNP as a percentage of the total OPEB liability	48.72%	56.40%	43.49%	47.42%
Covered-employee payroll	\$ 30,652,648	\$ 29,759,852	\$ 28,281,892	\$ 27,458,148
Net OPEB liability as a percentage of covered-employee payroll	8.20%	7.52%	11.36%	10.26%

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

<u>June 30, 2018</u>	<u>June 30, 2017</u>
\$ 459,497	\$ 446,114
246,070	243,084
-	-
-	-
-	-
(659,291)	(570,970)
-	-
<u>46,276</u>	<u>118,228</u>
<u>7,104,734</u>	<u>6,986,506</u>
<u>\$ 7,151,010</u>	<u>\$ 7,104,734</u>
\$ -	\$ -
-	-
-	-
-	-
-	-
-	-
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 7,151,010</u>	<u>\$ 7,104,734</u>
0.00%	0.00%
\$ 28,185,892	\$ 27,364,944
25.37%	25.96%

**Independent School District No. 656**  
**Schedule of Investment Returns**

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Annual money-weighted rate of return, net of investment expense	-12.50%	23.70%	5.20%	4.40%	N/A	N/A

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



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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1181%	\$ 5,547,747	\$ -	\$ 5,547,747	\$ 6,215,476	89.3%	78.75%
2015	0.1103%	5,716,318	-	5,716,318	6,378,760	89.6%	78.19%
2016	0.1136%	9,223,757	120,483	9,344,240	7,058,880	130.7%	68.91%
2017	0.1079%	6,888,265	86,620	6,974,885	6,968,560	98.8%	75.90%
2018	0.1054%	5,847,160	191,696	6,038,856	7,060,427	82.8%	79.53%
2019	0.1056%	5,838,387	181,492	6,019,879	7,478,627	78.1%	80.23%
2020	0.1046%	6,271,248	193,337	6,464,585	7,460,507	84.1%	79.06%
2021	0.1078%	4,603,543	140,593	4,744,136	7,764,307	59.3%	87.00%
2022	0.1070%	8,474,435	248,362	8,722,797	8,011,120	105.8%	76.67%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3926%	\$ 18,090,723	\$ 1,272,601	\$ 19,363,324	\$ 17,997,714	100.5%	81.50%
2015	0.3860%	24,038,753	2,948,815	26,987,568	19,928,707	120.6%	76.77%
2016	0.4023%	95,958,149	9,632,120	105,590,269	21,210,000	452.4%	44.88%
2017	0.3908%	78,010,769	7,541,449	85,552,218	20,931,547	372.7%	51.57%
2018	0.3922%	24,635,736	2,314,163	26,949,899	21,913,467	112.4%	78.07%
2019	0.3876%	24,705,706	2,186,373	26,892,079	21,080,078	117.2%	78.21%
2020	0.3812%	28,163,567	2,359,927	30,523,494	22,149,697	127.2%	75.48%
2021	0.3894%	17,041,308	1,437,102	18,478,410	23,301,993	73.1%	86.63%
2022	0.4100%	32,830,631	2,434,735	35,265,366	25,343,861	129.5%	76.17%

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

See notes to required supplementary information.

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

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 450,622	\$ 450,622	\$ -	\$ 6,215,476	7.25%
2015	478,407	478,407	-	6,378,760	7.50%
2016	529,416	529,416	-	7,058,880	7.50%
2017	522,642	522,642	-	6,968,560	7.50%
2018	529,532	529,532	-	7,060,427	7.50%
2019	560,897	560,897	-	7,478,627	7.50%
2020	559,538	559,538	-	7,460,507	7.50%
2021	582,323	582,323	-	7,764,307	7.50%
2022	600,834	600,834	-	8,011,120	7.50%
2023	664,757	664,757	-	8,863,427	7.50%

**Schedule of District Contributions  
TRA Retirement Fund  
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 1,259,840	\$ 1,259,840	\$ -	\$ 17,997,714	7.00%
2015	1,494,653	1,494,653	-	19,928,707	7.50%
2016	1,590,750	1,590,750	-	21,210,000	7.50%
2017	1,569,866	1,569,866	-	20,931,547	7.50%
2018	1,643,510	1,643,510	-	21,913,467	7.50%
2019	1,625,274	1,625,274	-	21,080,078	7.71%
2020	1,754,256	1,754,256	-	22,149,697	7.92%
2021	1,894,452	1,894,452	-	23,301,993	8.13%
2022	2,113,678	2,113,678	-	25,343,861	8.34%
2023	2,168,474	2,168,474	-	25,362,269	8.55%

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

**TRA Retirement Fund**

**2022 Change**

Changes in Actuarial Assumptions

- None

**2021 Changes**

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.5% to 7.0%.

**2020 Changes**

Changes in Actuarial Assumptions

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

**2019 Changes**

Changes in Actuarial Assumptions

- None

**2018 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

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

**TRA Retirement Fund (Continued)**

**2017 Changes**

Changes in Actuarial Assumptions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 Changes**

Changes of Benefit Terms

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

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

**TRA Retirement Fund (Continued)**

**2015 Changes (Continued)**

Changes in Actuarial Assumptions

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

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

**General Employees Fund**

**2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2021 Changes**

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2020 Changes**

Changes in Actuarial Assumptions

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

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

**General Employees Fund (Continued)**

**2020 Changes (Continued)**

Changes in Plan Provisions

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

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2017 Changes**

Changes in Actuarial Assumptions

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

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

**General Employees Fund (Continued)**

**2017 Changes (Continued)**

Changes in Plan Provisions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2015 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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



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

**Other Post Employment Benefits**

**2023 Changes**

Changes in Actuarial Assumptions

- The inflation rate was changed from 2.00% to 2.50%
- The discount rate was changed from 2.60 % to 4.00%.

**2022 Changes**

Changes in Plan Provisions

- The GASB 75 post employment medical subsidized benefit for Office Personnel increased from \$250 to \$300 per month until Medicare eligibility.

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2010 Public Retirement Plans Headcount – Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers with MP-2020 Generational Improvement Scale.
- The salary increase rates for non-teachers were updated to reflect the latest experience study.
- The withdrawal rates were updated to reflect the latest experience study.
- The inflation rate was changed from 2.50% to 2.00%.
- The discount rate was changed from 2.90% to 2.60%.

**2021 Changes**

Changes in Actuarial Assumptions

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

**2020 Changes**

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the PUB-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The retiree plan participation percentage for future retirees eligible to receive a \$100 per month subsidy was reduced from 50% to 25%.
- The discount rate was changed from 3.40% to 3.50%.
- The discount rate changed from 3.20% to 2.90%.

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

**Other Post Employment Benefits (Continued)**

**2019 Changes**

Other Changes

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

**2018 Changes**

Changes in Plan Provisions

- The eligibility for Non-Union Cabinet employees was changed from age 55 with 5 years of service to the earlier of age 55 with 5 years of service or age 50 with 20 years of service.

Changes in Actuarial Assumptions

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

## **SUPPLEMENTARY INFORMATION**

**Independent School District No. 656**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2023**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total revenue	\$ 60,435,359	\$ 60,435,356	\$ (3)	Total revenue	\$ 20,563	\$ 20,563	\$ -
Total expenditures	60,117,720	60,117,719	(1)	Total expenditures	1,079,001	1,079,000	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	327,238	327,238	-	4.60 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
4.01 Student Activities	108,719	108,718	(1)	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.13 Building Projects Funded by COP	-	-	-
4.03 Staff Development	44,539	44,539	-	4.67 LTFM	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Programs	-	-	-	4.64 Restricted fund balance	-	-	-
4.13 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
4.14 Operating Debt	-	-	-	4.63 Unassigned fund balance	-	-	-
4.16 Levy Reduction	-	-	-				
4.17 Taconite Building Maintenance	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.24 Operating Capital	306,646	306,646	-	Total revenue	\$ 2,275,643	\$ 2,275,643	\$ -
4.26 \$25 Taconite	-	-	-	Total expenditures	2,255,750	2,255,750	-
4.27 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.34 Area Learning Center	481,722	481,722	-	<i>Restricted/Reserved:</i>			
4.35 Contracted Alternative Programs	-	-	-	4.25 Bond refunding	-	-	-
4.36 State Approved Alternative Program	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.38 Gifted and Talented	-	-	-	4.51 QZAB payments	-	-	-
4.40 Teacher Development and Evaluation	-	-	-	4.67 LTFM	-	-	-
4.41 Basic Skills Programs	-	-	-	<i>Restricted:</i>			
4.45 Career Technical Programs	-	-	-	4.64 Restricted fund balance	564,068	564,067	(1)
4.48 Achievement and Integration Revenue	-	-	-	<i>Unassigned:</i>			
4.49 Safe School Crime	149,335	149,335	-	4.63 Unassigned fund balance	-	-	-
4.51 QZAB payments	-	-	-				
4.52 OPEB Liabilities not Held in Trust	-	-	-	<b>08 TRUST FUND</b>			
4.53 Unfunded Severance and Retirement Levy	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.59 Basic Skills Extended Time	-	-	-	Total expenditures	-	-	-
4.67 Long-Term Facilities Maintenance	9,156	9,156	-	<i>Unassigned:</i>			
<i>Restricted:</i>				4.01 Student Activities	-	-	-
4.72 Medical Assistance	-	-	-	4.02 Scholarships	-	-	-
4.64 Restricted fund balance	-	-	-	4.22 Net position	-	-	-
4.75 Title VII - Impact Aid	-	-	-				
4.76 Payments in Lieu of Taxes	-	-	-	<b>18 CUSTODIAL</b>			
<i>Committed:</i>				Total revenue	\$ -	\$ -	\$ -
4.18 Committed for separation	-	-	-	Total expenditures	-	-	-
4.61 Committed	-	-	-	<i>Restricted/Reserved:</i>			
<i>Assigned:</i>				4.01 Student Activities	-	-	-
4.62 Assigned fund balance	-	-	-	4.02 Scholarships	-	-	-
<i>Unassigned:</i>				4.48 Achievement and Integration	-	-	-
4.22 Unassigned fund balance (net position)	6,558,159	6,558,159	-	4.64 Restricted	-	-	-
<b>02 FOOD SERVICE FUND</b>				<b>20 INTERNAL SERVICE FUND</b>			
Total revenue	\$ 2,528,956	\$ 2,528,956	\$ -	Total revenue	\$ 2,737,324	\$ 2,737,324	\$ -
Total expenditures	2,272,035	2,272,035	-	Total expenditures	2,184,088	2,184,087	(1)
<i>Nonspendable:</i>				<i>Unassigned:</i>			
4.60 Nonspendable fund balance	-	-	-	4.22 Net position	907,477	907,477	-
<i>Restricted/Reserved:</i>							
4.52 OPEB liabilities not held in trust	-	-	-	<b>25 OPEB REVOCABLE TRUST</b>			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	\$ -
4.64 Restricted fund balance	1,863,361	1,863,361	-	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
4.63 Unassigned fund balance	-	-	-	4.22 Net position	-	-	-
<b>04 COMMUNITY SERVICE FUND</b>				<b>45 OPEB IRREVOCABLE TRUST</b>			
Total revenue	\$ 3,507,903	\$ 3,507,900	\$ (3)	Total revenue	\$ 158,330	\$ 158,330	\$ -
Total expenditures	3,559,265	3,559,261	(4)	Total expenditures	205,204	205,203	(1)
<i>Nonspendable:</i>				<i>Unassigned:</i>			
4.60 Nonspendable fund balance	-	-	-	4.22 Net position	2,341,714	2,341,714	-
<i>Restricted/Reserved:</i>							
4.26 \$25 Taconite	-	-	-	<b>47 OPEB DEBT SERVICE</b>			
4.31 Community Education	417,422	417,422	-	Total revenue	\$ -	\$ -	\$ -
4.32 ECFE	192,083	192,083	-	Total expenditures	-	-	-
4.40 Teacher Development and Evaluations	-	-	-	<i>Nonspendable:</i>			
4.44 School Readiness	205,966	205,966	-	4.60 Nonspendable fund balance	-	-	-
4.47 Adult Basic Education	147,101	147,101	-	<i>Restricted:</i>			
4.52 OPEB Liabilities not Held in Trust	-	-	-	4.25 Bond refundings	-	-	-
<i>Restricted:</i>				4.64 Restricted fund balance	-	-	-
4.64 Restricted fund balance	9,559	9,559	-	<i>Unassigned:</i>			
<i>Unassigned:</i>				4.63 Unassigned fund balance	-	-	-
4.63 Unassigned fund balance	-	-	-				

**Independent School District No. 656**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2023**

Federal Funding Source	Federal Assistance Listing Number	Pass Through Entity	Grant Name	Expenditures
Department of Agriculture	10.555	Minnesota Department of Education	Commodities Program	\$ 168,916
Department of Agriculture	10.553	Minnesota Department of Education	School Breakfast	419,204
Department of Agriculture	10.555	Minnesota Department of Education	Type A Lunch	1,180,578
Department of Agriculture	10.555C	Minnesota Department of Education	COVID - 19 Supply Chain Assistance	58,912
Department of Agriculture	10.556	Minnesota Department of Education	Special Milk	3,034
Department of Agriculture	10.559	Minnesota Department of Education	Summer Food Service	30,048
			Total Child Nutrition Cluster	<u>1,860,692</u>
Department of Agriculture	10.558	Minnesota Department of Education	Child Care Food Program	115,037
Department of Treasury	21.027	Minnesota Department of Education	COVID-19 ARP Adult Basic Education	7,864
Department of Treasury	21.027	Minnesota Department of Education	COVID-19 Ignite Grant	101,441
			Total Coronavirus State and Local Fiscal Recovery Funds	<u>109,305</u>
Federal Communications Commission	32.009	Minnesota Department of Education	COVID-19 Emergency Connectivity Fund	337,655
Federal Communications Commission	32.009	Minnesota Department of Education	Hydration Station Grant	2,400
Department of Education	84.010	Minnesota Department of Education	Title I, Part A	828,960
Department of Education	84.367	Minnesota Department of Education	Title II, Part A - Supporting Effective Instruction	123,964
Department of Education	84.365	Minnesota Department of Education	Title III, Part A - English Language Acquisition	140,442
Department of Education	84.424	Minnesota Department of Education	Title IV, Part A - Student Support and Academic Enrichment	51,042
Department of Education	84.027	Minnesota Department of Education	Special Education	1,298,564
Department of Education	84.027	Minnesota Department of Education	IDEA Part B Section 611 - CEIS	82,664
Department of Education	84.027C	Minnesota Department of Education	COVID-19 ARP IDEA Part B Section 611	100,912
Department of Education	84.173C	Minnesota Department of Education	COVID-19 ARP IDEA Part B Section 619	4,441
Department of Education	84.173	Minnesota Department of Education	Disabled Early Education	15,025
			Total Special Education Cluster	<u>1,501,606</u>
Department of Education	84.181	Minnesota Department of Education	Special Education - Grants for Infants and Families	9,739
Department of Education	84.371	Minnesota Department of Education	Comprehensive Literacy Development	1,353,915
Department of Education	84.287	Minnesota Department of Education	Twenty-First Century Community Learning Centers	204,963
Department of Education	84.425U	Minnesota Department of Education	COVID-19 Elementary and Secondary School Education Relief (ESSER) III Fund	2,098,455
Department of Education	84.425D	Minnesota Department of Education	COVID-19 ESSER II Fund	1,479,090
Department of Education	84.425W	Minnesota Department of Education	COVID-19 ARP - Homeless II	4,599
Department of Education	84.425C	Minnesota Department of Education	COVID-19 Expanded Summer Learning - GEER	30,378
Department of Education	84.425D	Minnesota Department of Education	COVID-19 Expanded Summer Learning - ESSER	<u>346,024</u>
			Total Education Relief	<u>3,958,546</u>
Department of Education	84.002	Southern MN ABE Consortium	Adult Basic Education	22,453
Department of Health and Human Services	93.959	Minnesota Department of Education	Block Grants for Prevention and Treatment of Substance Abuse	74,511
Department of Health and Human Services	93.323	Minnesota Department of Education	MN COVID-19 Testing Program	<u>79,905</u>
Total Federal Expenditures				<u>\$ 10,775,135</u>

See notes to schedule of expenditures of federal awards.

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

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because 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, changes of net assets, or cash flows of the District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 – PASS-THROUGH GRANT NUMBERS**

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

**NOTE 4 – INVENTORY**

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

**NOTE 5 – INDIRECT COST RATE**

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

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

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, Faribault, Minnesota, as of and for the year ending June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 11, 2023.

**Report on Internal Control over Financial Reporting**

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

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

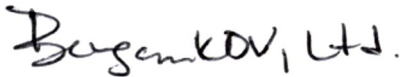
Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did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

### **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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



St. Cloud, Minnesota  
October 11, 2023



**Report on Compliance for Each Major Federal Program  
and Report on Internal Control over Compliance Required by  
the Uniform Guidance**

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited Independent School District No. 656's, Faribault, Minnesota compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

**Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (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 each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

**Responsibilities of Management for Compliance**

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

### **Auditor's 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 District's internal control over compliance. Accordingly, no such opinion is expressed.

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

### **Report on Internal Control over Compliance**

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

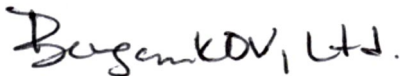
### **Report on Internal Control over Compliance (Continued)**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001, to be a significant deficiency.

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

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

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



St. Cloud, Minnesota  
October 11, 2023

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

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP)

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

No  
None reported

Noncompliance material to financial statements noted?

No

**Federal Awards**

Type of auditor's report issued on compliance for major programs:

Unmodified

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

No  
Yes, Audit Finding 2023-001

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?

No

**Identification of Major Programs**

Assistance Listing No.:

10.553, 10.555, 10.556, 10.559

Name of Federal Program or Cluster:

Child Nutrition Cluster

Assistance Listing No.:

84.027, 84.173

Name of Federal Program or Cluster:

Special Education Cluster

Assistance Listing No.:

84.425

Name of Federal Program or Cluster:

Education Stabilization Fund

Assistance Listing No.:

32.009

Name of Federal Program or Cluster:

Emergency Connectivity Funds

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low risk auditee?

Yes

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

**SECTION II – BASIC FINANCIAL STATEMENT FINDINGS**

There are no findings related to the basic financial statements required to be reported under *Governmental Auditing Standards* generally accepted in the United States of America for the year ended June 30, 2023.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

ALN #10.553, 10.555, 10.556, 10.559 – Child Nutrition Cluster

**Audit Finding 2023-001**

*Criteria:*

Internal controls that assure documentation for all free and reduced lunch applications are retained and calculated properly.

*Condition:*

We selected 60 free and reduced applications to test for priority. The District was unable to provide 4 of the 60 applications for our review.

*Cause:*

The District is not retaining data necessary to verify compliance with Uniform Guidance policies.

*Effect or Potential Effect:*

Verification of proper evaluation of free and reduced lunch application was not possible for these 4 applicants.

*Recommendation:*

Ensure all free and reduced lunch applications are kept on file for potential review and verification of compliance.

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
ALN #10.553, 10.555, 10.556, 10.559 – Child Nutrition Cluster  
Audit Finding 2023-001

*Criteria:*

Internal controls that assure documentation for all free and reduced lunch applications are retained and calculated properly.

*Condition:*

We selected 60 free and reduced applications to test for priority. The District was unable to provide 4 of the 60 applications for our review.

*Cause:*

The District is not retaining data necessary to verify compliance with Uniform Guidance policies.

*Effect or Potential Effect:*

Verification of proper evaluation of free and reduced lunch application was not possible for these 4 applicants.

*Recommendation:*

Ensure all free and reduced lunch applications are kept on file for potential review and verification of compliance.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Administration will ensure sufficient backup documentation is available.

3. Official Responsible for Ensuring CAP



The Superintendent is responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The planned completion date for the CAP is immediate.

5. Official Responsible for Ensuring CAP

The Board of Education will be monitoring this CAP



**Minnesota Legal Compliance**

**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, Faribault, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, and have issued our report thereon dated October 11, 2023.

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

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

*BergankDV, Ltd.*

St. Cloud, Minnesota  
October 11, 2023

**FORM OF LEGAL OPINION**

(See following pages)

FORM OF LEGAL OPINION



Independent School District No. 656  
Faribault, Minnesota

[Original Purchaser]

Re: \$10,770,000 General Obligation Facilities Maintenance Bonds, Series 2024A  
Independent School District No. 656 (Faribault Public Schools)  
Rice and Goodhue Counties, Minnesota

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Independent School District No. 656 (Faribault Public Schools), Rice and Goodhue Counties, Minnesota (the District), of the obligations described above, dated, as originally issued, as of February 15, 2024 (the Bonds), we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the District in the authorization, sale and issuance of the Bonds, including the form of the Bonds. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Bonds are valid and binding general obligations of the District, enforceable in accordance with their terms.
2. The principal of and interest on the Bonds are payable from ad valorem taxes heretofore duly levied on all taxable property in the District, but if necessary for payment thereof, additional ad valorem taxes are required by law to be levied on all such property, which taxes are not subject to any limitation as to rate or amount.
3. The resolution authorizing the issuance of the Bonds obligates the District to be bound by the provisions of Minnesota Statutes, Section 126C.55. We express no opinion as to the enforceability of the provisions of such law against the State of Minnesota in the absence of legally appropriated and available funds to pay the obligations of the State thereunder.

4. Interest on the Bonds (a) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the Code) and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on noncorporate taxpayers by Section 55 of the Code.

5. Interest on the Bonds (a) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes and (b) is not an item of tax preference for purposes of the Minnesota alternative minimum tax imposed on individuals, estates, and trusts.

The opinions expressed in paragraphs 1, 2, and 3 above are subject, as to enforceability, to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the application of equitable principles, whether considered at law or in equity.

The opinions expressed in paragraphs 4 and 5 above are subject to the compliance by the District with certain requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. Noncompliance with these requirements could result in the inclusion of interest on the Bonds in gross income for federal income tax purposes and taxable net income of individuals, estates, and trusts for Minnesota income tax purposes retroactive to the date of issuance of the Bonds.

Except as stated herein, we express no opinion regarding federal, state, or other tax consequences to the owner of the Bonds. We note, however, that interest on the Bonds may be taken into account in determining adjusted financial statement income for purposes of the federal alternative minimum tax imposed on applicable corporations (as defined in Section 59(k) of the Code), and interest on the Bonds is included in net income of corporations and financial institutions for purposes of the Minnesota franchise tax.

In providing this opinion, we have relied upon representations of the District and its officers as to (i) the intended application of the proceeds of the Bonds, (ii) the nature, use, cost, and economic life of the facilities and equipment financed by the Bonds, and (iii) other matters relating to the exemption of the interest on the Bonds from federal income taxation.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may occur after the date hereof and which may be retroactive.

We have not been asked, and have not undertaken, to review the accuracy, completeness or sufficiency of any offering materials relating to the Bonds, and, accordingly, we express no opinion with respect thereto.

Independent School District No. 656  
[Purchaser]  
Page 2

Dated this 15<sup>th</sup> day of February, 2024.

Very truly yours,

### BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

**FORM OF CONTINUING DISCLOSURE COVENANTS  
(EXCERPTS FROM SALE RESOLUTION)**

(See following pages)



## FORM OF CONTINUING DISCLOSURE

Continuing Disclosure. (a) Purpose and Beneficiaries. To provide for the public availability of certain information relating to the Bonds and the security therefor and to permit the Purchaser and other participating underwriters in the primary offering of the Bonds to comply with amendments to Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), relating to continuing disclosure (as in effect and interpreted from time to time, the Rule), which will enhance the marketability of the Bonds, the District hereby makes the following covenants and agreements for the benefit of the Owners (as hereinafter defined) from time to time of the outstanding Bonds. The District is the only obligated person in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. If the District fails to comply with any provisions of this section, any person aggrieved thereby, including the Owners of any outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this section, including an action for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this section constitute a default under the Bonds or under any other provision of this resolution. As used in this section, Owner or Bondowner means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, Beneficial Owner means, in respect of a Bond, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The District will provide, in the manner set forth in subsection (c) hereof, either directly or indirectly through an agent designated by the District, the following information at the following times:

- (1) on or before twelve (12) months after the end of each fiscal year of the District, commencing with the fiscal year ending June 30, 2024, the following financial information and operating data in respect of the District (the Disclosure Information):
  - (A) the audited financial statements of the District for such fiscal year, prepared in accordance with generally accepted accounting principles in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the District, noting the discrepancies therefrom and the effect thereof, and

certified as to accuracy and completeness in all material respects by the fiscal officer of the District; and

- (B) to the extent not included in the financial statements referred to in paragraph (A) hereof, the information for such fiscal year or for the period most recently available of the type contained in the Official Statement under the headings: Current Property Valuations; Direct Debt; Tax Levies and Collections; Student Body; and Employment/ Unemployment Data, which information may be unaudited.

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the District shall provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the District shall provide the audited financial statements. Any or all of the Disclosure Information may be incorporated by reference, if it is updated as required hereby, from other documents, including official statements, which have been submitted to the Municipal Securities Rulemaking Board (the MSRB) through its Electronic Municipal Market Access System (EMMA) or the SEC. The District shall clearly identify in the Disclosure Information each document so incorporated by reference. If any part of the Disclosure Information can no longer be generated because the operations of the District have materially changed or been discontinued, such Disclosure Information need no longer be provided if the District includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other District operations in respect of which data is not included in the Disclosure Information and the District determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations. If the Disclosure Information is changed or this section is amended as permitted by this paragraph (b)(1) or subsection (d), then the District shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

- (2) In a timely manner, not in excess of 10 business days, to the MSRB through EMMA, notice of the occurrence of any of the following events (each a “Material Fact,” as hereinafter defined):
  - (A) principal and interest payment delinquencies;
  - (B) non-payment related defaults, if material;
  - (C) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (D) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (E) substitution of credit or liquidity providers, or their failure to perform;
  - (F) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

- (G) modifications to rights of Bond holders, if material;
- (H) Bond calls, if material and tender offers;
- (I) defeasances;
- (J) release, substitution, or sale of property securing repayment of the Bonds if material;
- (K) rating changes;
- (L) bankruptcy, insolvency, receivership, or similar event of the obligated person;
- (M) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (N) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (O) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; “financial obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule; and
- (P) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

As used herein, for those events that must be reported if material, a “Material Fact” is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a Material Fact is also a fact that would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

For the purposes of the event identified in (L) hereinabove, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order

confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

For purposes of the events identified in paragraphs (O) and (P) above, the term “financial obligation” means (i) a debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

- (3) In a timely manner, to the MSRB through EMMA, notice of the occurrence of any of the following events or conditions:
  - (A) the failure of the District to provide the Disclosure Information required under paragraph (b)(1) at the time specified thereunder;
  - (B) the amendment or supplementing of this section pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the District under subsection (d)(2);
  - (C) the termination of the obligations of the District under this section pursuant to subsection (d);
  - (D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and
  - (E) any change in the fiscal year of the District.

(c) Manner of Disclosure.

- (1) The District agrees to make available to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the information described in subsection (b).
- (2) All documents provided to the MSRB pursuant to this subsection (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(d) Term; Amendments; Interpretation.

- (1) The covenants of the District in this section shall remain in effect so long as any Bonds are outstanding. Notwithstanding the preceding sentence, however, the obligations of the District under this section shall terminate and be without further effect as of any date on which the District delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the District to comply with the requirements of this section will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements

of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

- (2) This section (and the form and requirements of the Disclosure Information) may be amended or supplemented by the District from time to time, without notice to (except as provided in paragraph (c)(2) hereof) or the consent of the Owners of any Bonds, by a resolution of this Board filed in the office of the recording officer of the District accompanied by an opinion of Bond Counsel, who may rely on certificates of the District and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the District or the type of operations conducted by the District, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this section as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule.

If the Disclosure Information is so amended, the District agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

- (3) This section is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

## **TERMS OF PROPOSAL**

### **\$10,770,000\* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2024A INDEPENDENT SCHOOL DISTRICT NO. 656 (FARIBAULT PUBLIC SCHOOLS), MINNESOTA**

Proposals for the purchase of \$10,770,000\* General Obligation Facilities Maintenance Bonds, Series 2024A (the "Bonds") of the Independent School District No. 656 (Faribault Public Schools), Minnesota (the "District") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the District, until 09:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via [bondsale@ehlers-inc.com](mailto:bondsale@ehlers-inc.com) or **PARITY**, in the manner described below, until 9:30 A.M. Central Time, on January 22, 2024, at which time they will be opened, read and tabulated. The proposals will be presented to the School Board for consideration for award by resolution at a meeting to be held at 5:30 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

### **AUTHORITY; PURPOSE; SECURITY**

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, as amended, and Section 123B.595, as amended, by the District, to provide funds for facility maintenance projects included in the District's ten-year facility plan approved by the Commissioner of Education. The Bonds will be general obligations of the District for which its full faith and credit and taxing powers are pledged.

### **DATES AND MATURITIES**

The Bonds will be dated February 15, 2024, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2025	\$1,700,000	2027	\$1,815,000	2029	\$2,090,000
2026	1,710,000	2028	1,995,000	2030	1,460,000

### **ADJUSTMENT OPTION**

The District reserves the right to decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

### **TERM BOND OPTION**

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial Bonds and term Bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

## **INTEREST PAYMENT DATES AND RATES**

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2024, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

## **BOOK-ENTRY-ONLY FORMAT**

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

## **PAYING AGENT**

The District has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

## **OPTIONAL REDEMPTION**

The Bonds are being offered without the option of prior optional redemption.

## **DELIVERY**

On or about February 15, 2024, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

## **LEGAL OPINION**

An opinion in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP ("Bond Counsel"), Minneapolis, Minnesota, bond counsel to the District.

## **SUBMISSION OF PROPOSALS**

Proposals must not be for less than \$10,770,000 plus accrued interest on the principal sum of \$10,770,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to [bondsale@ehlers-inc.com](mailto:bondsale@ehlers-inc.com); or

- 2) Electronically via **PARITY** in accordance with this Terms of Proposal until 9:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact IHS Markit (now part of S&P Global) at <https://ihsmarkit.com/products/municipal-issuance.html> or via telephone (844) 301-7334.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the District nor Ehlers shall be responsible for any failure to receive a facsimile submission.

**A good faith deposit ("Deposit") in the amount of \$215,400 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals.** The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The District and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the District scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

## **AWARD**

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The District's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The District reserves the right to reject any and all proposals and to waive any informality in any proposal.

## **BOND INSURANCE**

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the District requested and received a rating on the Bonds from a rating agency, the District will pay that rating fee. Any rating agency fees not requested by the District are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.



## **CUSIP NUMBERS**

The District will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

## **NON-QUALIFIED TAX-EXEMPT OBLIGATIONS**

The Bonds shall not be designated as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

## **CONTINUING DISCLOSURE**

In order to assist the Underwriter (Syndicate Manager) in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the District will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

## **ESTABLISHMENT OF ISSUE PRICE AT TIME OF AWARD**

In order to establish the issue price of the Bonds for federal income tax purposes, the District requires bidders to agree to the following, and by submitting a proposal, each bidder agrees to the following.

If a proposal is submitted by a potential underwriter, the bidder confirms that (i) the underwriters have offered or reasonably expect to offer the Bonds to the public on or before the date of the award at the offering price (the "initial offering price") for each maturity as set forth in the proposal and (ii) the bidder, if it is the winning bidder, shall require any agreement among underwriters, selling group agreement, retail distribution agreement or other agreement relating to the initial sale of the Bonds to the public to which it is a party to include provisions requiring compliance by all parties to such agreements with the provisions contained herein. For purposes hereof, Bonds with a separate CUSIP number constitute a separate "maturity", and the public does not include underwriters (including members of a selling group or retail distribution group) or persons related to underwriters.

If, however, a proposal is submitted for the bidder's own account in a capacity other than as an underwriter of the Bonds, and the bidder has no current intention to sell, reoffer, or otherwise dispose of the Bonds, the bidder shall notify the District to that effect at the time it submits its proposal and shall provide a certificate to that effect in place of the certificate otherwise required below.

If the winning bidder intends to act as an underwriter, the District shall advise the winning bidder at or prior to the time of award whether (i) the competitive sale rule or (ii) the "hold-the-offering price" rule applies.

If the District advises the Purchaser that the requirements for a competitive sale have been satisfied and that the competitive sale rule applies, the Purchaser will be required to deliver to the District at or prior to closing a certification, in a form reasonably acceptable to bond counsel, as to the reasonably expected initial offering price as of the award date.

If the District advises the Purchaser that the requirements for a competitive sale have not been satisfied and that the hold-the-offering price rule applies, the Purchaser shall (1) upon the request of the District confirm that the underwriters did not offer or sell any maturity of the Bonds to any person at a price higher than the initial offering price of that maturity during the period starting on the award date and ending on the earlier of (a) the close of the fifth business day after the sale date or (b) the date on which the underwriters have sold at least 10% of that maturity to the public at or below the initial offering price; and (2) at or prior to closing, deliver to the District a certification as to such matters, in a form reasonably acceptable to bond counsel, together with a copy of the pricing wire.

Any action taken or documentation to be received by the District pursuant hereto may be taken or received on behalf of the District by Ehlers & Associates, Inc.

**Bidders should prepare their proposals on the assumption that the Bonds will be subject to the "hold-the-offering-price" rule. Any proposal submitted pursuant to the Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, and Bonds submitted will not be subject to cancellation or withdrawal.**

### **PRELIMINARY OFFICIAL STATEMENT**

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at [www.ehlers-inc.com](http://www.ehlers-inc.com) by connecting to the Bond Sales link. The Underwriter (Syndicate Manager) will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the School Board

Independent School District No. 656  
(Faribault Public Schools), Minnesota

# PROPOSAL FORM

The School Board  
Independent School District No. 656 (Faribault Public Schools), Minnesota (the "District")

January 22, 2024

RE: \$10,770,000\* General Obligation Facilities Maintenance Bonds, Series 2024A (the "Bonds")

DATED: February 15, 2024

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$\_\_\_\_\_ (not less than \$10,770,000) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due	2025	_____ % due	2027	_____ % due	2029
_____ % due	2026	_____ % due	2028	_____ % due	2030

The District reserves the right to decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

**A good faith deposit ("Deposit") in the amount of \$215,400 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals.** The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about February 15, 2024.

This proposal is subject to the District's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, and have submitted our requests for additional information or corrections to the Final Official Statement. As Underwriter (Syndicate Manager), we agree to provide the District with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: \_\_\_\_ NO: \_\_\_\_.

If the competitive sale requirements are not met, we elect to use either the: \_\_\_\_ 10% test, or the \_\_\_\_ hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: \_\_\_\_\_ By: \_\_\_\_\_

Account Members:

**Award will be on a true interest cost basis.** According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from February 15, 2024 of the above proposal is \$\_\_\_\_\_ and the true interest cost (TIC) is \_\_\_\_\_%.

The foregoing offer is hereby accepted by and on behalf of the School Board of Independent School District No. 656 (Faribault Public Schools), Minnesota, on January 22, 2024.

By: _____	By: _____
Title: _____	Title: _____