

Annual Financial Report

Cannon Valley Special Education Cooperative

Faribault, Minnesota

For the Year Ended

June 30, 2020

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Cannon Valley Special Education Cooperative
 Faribault, Minnesota
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INTRODUCTORY SECTION
CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

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Cannon Valley Special Education Cooperative
Faribault, Minnesota
Administrative Information
For the Year Ended June 30, 2020

MEMBER DISTRICTS

Independent School District No. 761, Owatonna
Independent School District No. 656, Faribault
Independent School District No. 659, Northfield
Independent School District No. 763, Medford

ADMINISTRATIVE BOARD

| | | |
|------------------|------------------|------------|
| Jolayne Mohs | Chairperson | Owatonna |
| Yvette Marthaler | Vice-Chairperson | Faribault |
| Amy Goerwitz | Secretary | Northfield |
| Jennifer Jones | Treasurer | Medford |

SUPERINTENDENTS

| | |
|----------------|------------|
| Jeffrey Elstad | Owatonna |
| Todd Sesker | Faribault |
| Matt Hillmann | Northfield |
| Mark Ristau | Medford |

ADMINISTRATIVE STAFF

| | |
|---------------|---------------------------------|
| Lynn Krominga | Executive Director |
| Corinne Kelly | Executive Assistant |
| Kim Washa | Finance and Payroll Coordinator |
| John Thomas | Technology Specialist |

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FINANCIAL SECTION
CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

Members of the Administrative Board
Cannon Valley Special Education Cooperative
Faribault, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Cannon Valley Special Education Cooperative, Faribault, Minnesota (the Cooperative), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedules of Employer's Shares of the Net Pension Liability, the Schedules of Employer's Pension and Other Post-employment Plan Contributions and the Schedule of Changes in the Cooperative's Total OPEB Liability and Related Ratios starting on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

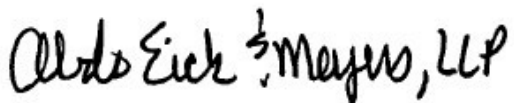
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The introductory section and individual fund schedule and table are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2020, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
November 13, 2020

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Management's Discussion and Analysis

As management of the Cannon Valley Special Education Cooperative, (the Cooperative), we offer readers of the Cooperative's financial statements this narrative overview and analysis of the financial activities of the Cooperative's for the fiscal year ended June 30, 2020.

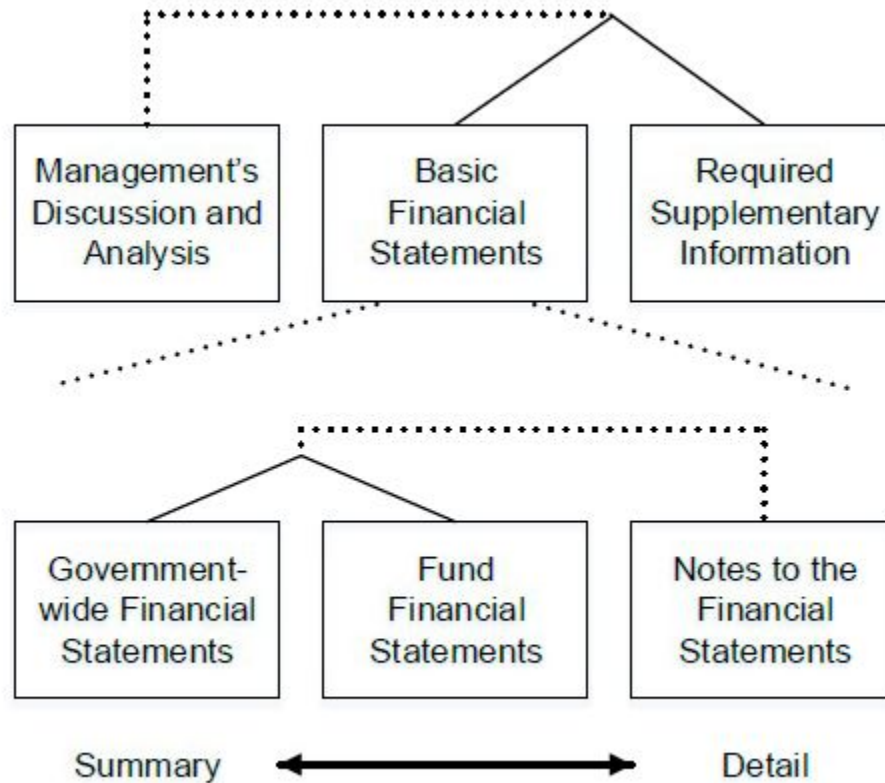
Financial Highlights

- The liabilities and deferred inflows of resources exceed its assets and deferred outflows of resources at the close of the most recent fiscal year by \$441,286. Of this amount, there is a negative amount of unrestricted net position, \$797,240, due to the recognition of long-term pension liabilities in accordance with GASB Statement No. 68 and the related deferred inflows and outflows of resources.
- The Cooperative's total net position decreased by \$1,011,321 compared to an increase of \$679,924 in the previous year. This was mostly attributed to the change in the GASB 68 liability, deferred inflows and outflows, which totaled \$1,032,188.
- As of the close of the current fiscal year, the Cooperative's General fund reported an ending fund balance of \$1,405,431, an increase of \$6,381 in comparison with the prior year. This increase is due to additional revenues from state sources.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$796,769, \$358,978 is restricted for medical assistance and \$249,684 is nonspendable fund balance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Cooperative's basic financial statements. The Cooperative's basic financial statements are comprised of three components: 1) Cooperative-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:

Organization of Cannon Valley Special Education Cooperative Annual Financial Report



The following chart summarizes the major features of the Cooperative's financial statements, including the portion of the Cooperative's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements:

Major Features of the Cooperative-wide and Fund Financial Statements

| | Fund Financial Statements | | |
|--|--|---|---|
| | Cooperative-wide Statements | Governmental Funds | Fiduciary Funds |
| Scope | Entire Cooperative (except fiduciary funds) | The activities of the Cooperative that are not fiduciary, such as special education and building maintenance | Instances in which the Cooperative administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balance | <ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial 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 | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of deferred outflows/inflows of resources information | All deferred outflows/inflows of resources, regardless of when cash is received or paid. | Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included | All deferred outflows/inflows of resources, regardless of when cash is received or paid |
| 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 the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid |

Cooperative-wide Financial Statements. The *Cooperative-wide financial statements* are designed to provide readers with a broad overview of the Cooperative's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Cooperative's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Cooperative is improving or deteriorating. To assess the Cooperative's overall health, you need to consider additional non-financial indicators such as changes in the Cooperative's condition of school buildings and other facilities.

The *statement of activities* presents information showing how the Cooperative's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick leave that will be paid out at \$10 to \$20 per day if the employee has 10 years of service with the Cooperative at the time of separation).

In the cooperative-wide financial statements, the Cooperative activities are shown in one category titled “governmental activities”:

- **Governmental Activities:** The Cooperative’s basic services are reported here, including special education instruction, cooperative support services, administration, and instructional support services. State grants and member charges for services finance most of these activities.

The Cooperative-wide financial statements can be found starting on page 26 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Cooperative are reported under governmental funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Cooperative-wide financial statements. However, unlike the Cooperative-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Cooperative’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Cooperative-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the Cooperative-wide financial statements. By doing so, readers may better understand the long-term impact by the Cooperative’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Cooperative maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, which is considered to be a major fund.

The Cooperative adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 30 of this report.

Notes to the Cooperative Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Cooperative-wide and fund financial statements. The notes to the cooperative financial statements can be found starting on page 35 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Cannon Valley Special Education Cooperative’s share of net pension liabilities (assets) for defined benefits plans, schedules of contributions, and progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on page 62 of this report.

Other Information. Individual fund schedule and table can be found starting on page 68 of this report.

Cooperative-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Cooperative, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$441,286 at the close of the most recent fiscal year.

Cannon Valley Special Education Cooperative's Net Position

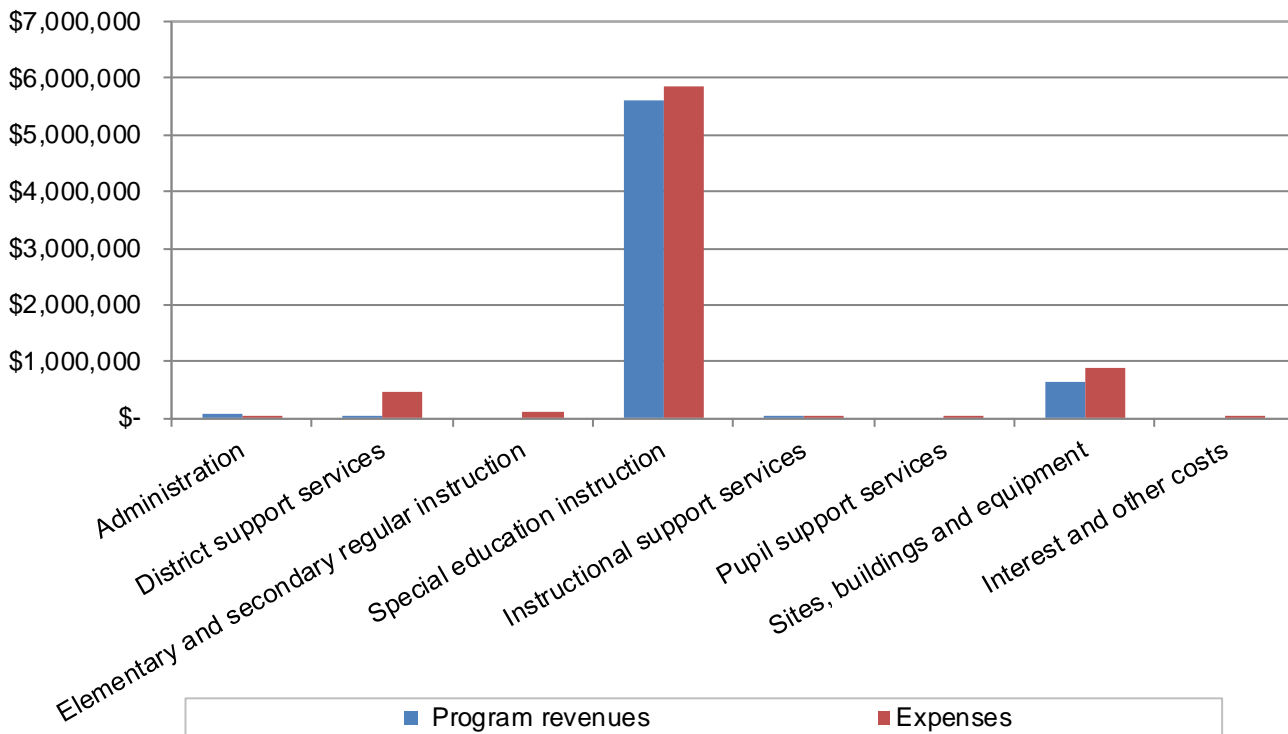
| | Governmental Activities | | | Percent |
|-----------------------------------|-------------------------|-------------------|------------------------|---------|
| | 2020 | 2019 | Increase (Decrease) | |
| Current and Other Assets | \$ 1,928,428 | \$ 1,903,558 | \$ 24,870 | 1.3 % |
| Capital Assets | 9,760 | 15,750 | (5,990) | (38.0) |
| Total Assets | <u>1,938,188</u> | <u>1,919,308</u> | <u>18,880</u> | 1.0 |
| Deferred Outflows of Resources | | | | |
| Deferred pension resources | <u>5,666,776</u> | <u>7,134,443</u> | <u>(1,467,667)</u> | (20.6) |
| Long-term Liabilities Outstanding | 4,397,578 | 3,996,208 | 401,370 | 10.0 |
| Other Liabilities | 522,997 | 516,132 | 6,865 | 1.3 |
| Total Liabilities | <u>4,920,575</u> | <u>4,512,340</u> | <u>408,235</u> | 9.0 |
| Deferred Inflows of Resources | | | | |
| Deferred pension resources | <u>3,125,675</u> | <u>3,971,376</u> | <u>(845,701)</u> | (21.3) |
| Net Position | | | | |
| Net investment in capital assets | (3,024) | (3,464) | 440 | (12.7) |
| Restricted | 358,978 | 302,531 | 56,447 | 18.7 |
| Unrestricted | <u>(797,240)</u> | <u>270,968</u> | <u>(1,068,208)</u> | (394.2) |
| Total Net Position | <u>\$ (441,286)</u> | <u>\$ 570,035</u> | <u>\$ (1,011,321)</u> | (177.4) |

Governmental Activities. Governmental activities decreased the Cooperative's net position by \$1,011,321. Key elements of this decrease are as follows:

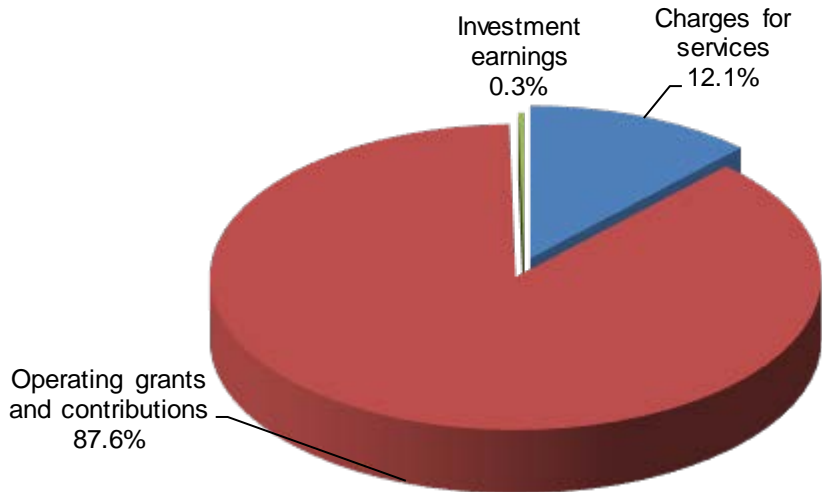
Cannon Valley Special Education Cooperative's Changes in Net Position

| | Governmental Activities | | Increase (Decrease) | Percent |
|--|-------------------------|-------------------|------------------------|-----------|
| | 2020 | 2019 | Amounts | |
| Revenues | | | | |
| Program revenues | | | | |
| Charges for services | \$ 767,564 | \$ 1,007,375 | \$ (239,811) | (23.8) % |
| Operating grants and contributions | 5,555,468 | 5,387,825 | 167,643 | 3.1 |
| General revenues | | | | |
| Grants and contributions not restricted to specific programs | 997 | - | 997 | N/A |
| Investment earnings | 20,723 | 33,857 | (13,134) | (38.8) |
| Total Revenues | <u>6,344,752</u> | <u>6,429,057</u> | <u>(84,305)</u> | (1.3) |
| Expenses | | | | |
| Administration | 17,359 | (1,473) | 18,832 | (1,278.5) |
| District support services | 457,710 | 365,870 | 91,840 | 25.1 |
| Elementary and secondary regular instruction | 122,287 | 9,364 | 112,923 | 1,205.9 |
| Special education instruction | 5,842,545 | 4,449,642 | 1,392,903 | 31.3 |
| Instructional support services | 3,501 | 6,177 | (2,676) | (43.3) |
| Pupil support services | 12,370 | 5,444 | 6,926 | 127.2 |
| Sites, buildings and equipment | 896,949 | 909,520 | (12,571) | (1.4) |
| Interest and other costs | 3,352 | 4,589 | (1,237) | (27.0) |
| Total Expenses | <u>7,356,073</u> | <u>5,749,133</u> | <u>1,606,940</u> | 28.0 |
| Change in Net Position | (1,011,321) | 679,924 | (1,691,245) | (248.7) |
| Net Position, July 1 | <u>570,035</u> | <u>(109,889)</u> | <u>679,924</u> | 618.7 |
| Net Position, June 30 | <u>\$ (441,286)</u> | <u>\$ 570,035</u> | <u>\$ (1,011,321)</u> | (177.4) |

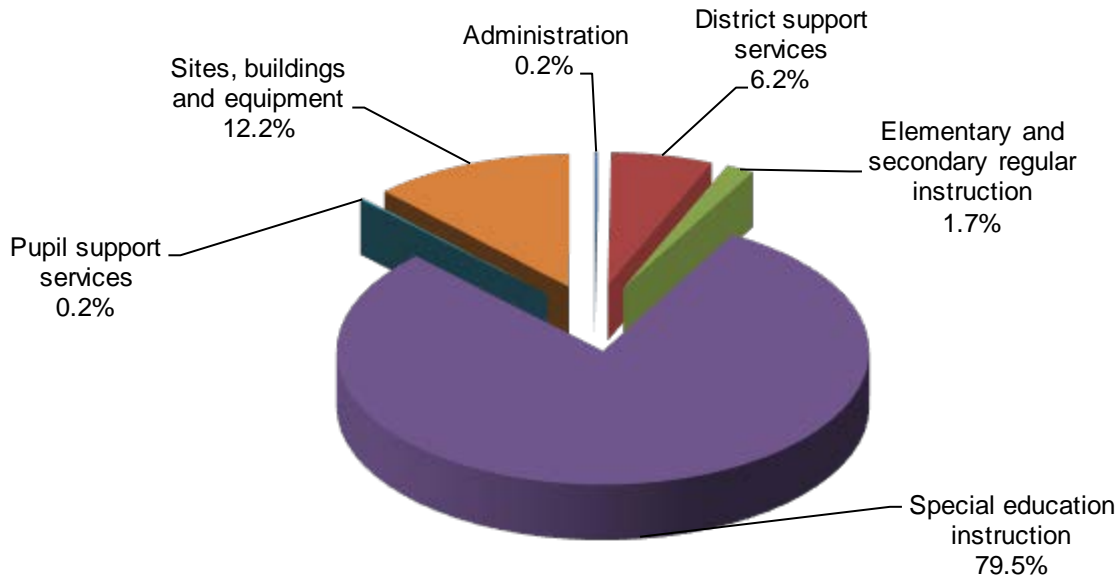
Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Expenses by Program - Governmental Activities



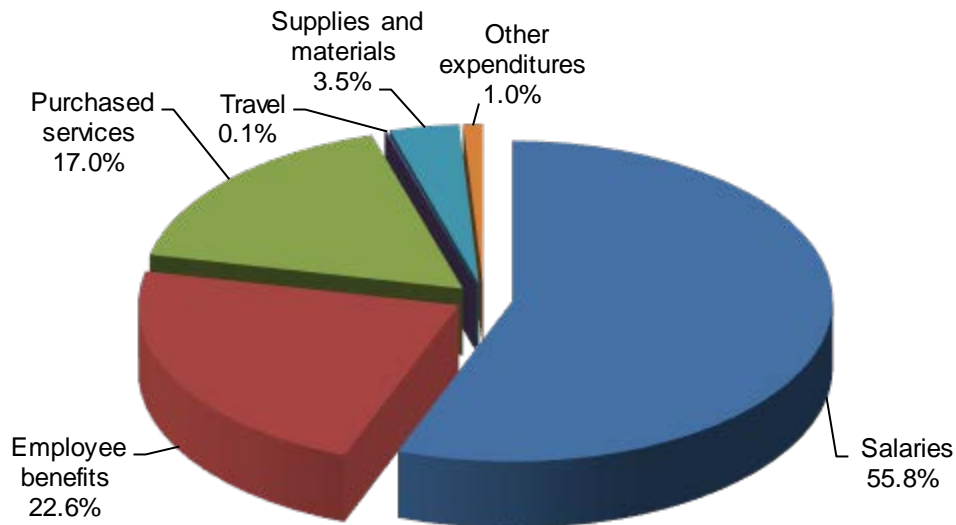
Financial Analysis of the Cooperative's Funds

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

Governmental Funds. The focus of the Cooperative's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the Cooperative's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General fund is the chief operating fund of the Cooperative. At the end of the current year, unassigned fund balance of the General fund was \$796,769, while total fund balance was \$1,405,431. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 12.6 percent of total General fund expenditures. The Cooperative does not currently have a fund balance policy, but intends to set one in the near future.

Current Expenditures by Category - General Fund



General Fund Budgetary Highlights

The actual General fund revenues for the Cooperative of \$6,326,630 were 11.5 percent less than the budgeted revenues of \$7,147,745. The actual General fund expenditures for the Cooperative of \$6,320,249 were 9.6 percent less than the budgeted expenditures of \$6,988,665.

Differences from the original adopted revenue budget of \$7,044,136 to the revised revenue budget of \$7,147,745 are attributed to the following factors:

- Added the possible Grant Revenue
- Medical Assistance Revenue expectancy increased.

Differences from the original adopted expenditure budget of \$6,914,135 to the revised expenditure budget of \$6,988,665 are attributed to the following factors:

- Additional staff enrolled in benefits.
- Possible Grant Expenditures added.

Capital Asset and Debt Administration

Capital Assets. The Cooperative's investment in capital assets for its governmental activities as of June 30, 2020 amounts to \$9,760 (net of accumulated depreciation). This investment in capital assets includes equipment. There was a decrease of \$5,990 in the Cooperative's investment in capital assets for the current fiscal year, with depreciation expense of \$5,990. The following is a schedule of capital assets as of June 30, 2020.

Cannon Valley Special Education Cooperative's Capital Assets (Net of Depreciation)

| | Governmental Activities | | |
|-----------|-------------------------|------------------|------------------------|
| | 2020 | 2019 | Increase (Decrease) |
| Equipment | <u>\$ 9,760</u> | <u>\$ 15,750</u> | <u>\$ (5,990)</u> |

Additional information on the Cooperative's capital assets can be found in Note 3C on page 42 of this report.

Long-term Debt. At the end of the current fiscal year, the Cooperative had capital lease payable of \$12,784 and loans payable of \$1,000,000. This capital lease is for the acquisition of the real property and improvements at the Cooperative's current location and the loan is payable to four member districts and will be repaid as excess fund balance becomes available.

Cannon Valley Special Education Cooperative's Outstanding Debt

| | Governmental Activities | | |
|-----------------------|-------------------------|---------------------|------------------------|
| | 2020 | 2019 | Increase (Decrease) |
| Capital Lease Payable | \$ 12,784 | \$ 19,214 | \$ (6,430) |
| Loan Payable | <u>1,000,000</u> | <u>1,000,000</u> | <u>-</u> |
| Total | <u>\$ 1,012,784</u> | <u>\$ 1,019,214</u> | <u>\$ (6,430)</u> |

Additional information on the Cooperative's capital lease payable can be found in Note 3D on page 43 of this report.

Factors Bearing on the Cooperative's Future

At the time these financial statements were prepared and audited, the Cooperative was aware of the following circumstance that could significantly affect its financial health in the future.

- The Cooperative is dependent on state reimbursements and other grants with the remaining expenses billed to the member districts.
- Program enrollment is an important indicator of the stability of the Cooperative. All three programs had a waiting list for the majority of the 2019-2020 school year.

Requests for Information

This financial report is designed to provide the Cooperative's citizens, taxpayers, customers, and investors and creditors with a general overview of the Cooperative's finances and to demonstrate the Cooperative's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be in written form and addressed to the Business Office, Cannon Valley Special Education Cooperative, 128 8th Ave NW, Faribault, Minnesota 55021.

DISTRICT-WIDE FINANCIAL STATEMENTS
CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

Cannon Valley Special Education Cooperative
Fairbault, Minnesota
Statement of Net Position
June 30, 2020

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and temporary investments | \$ 1,016,326 |
| Receivables | |
| Accounts | 7,696 |
| Intergovernmental | 654,722 |
| Prepaid items | 249,684 |
| Capital assets net of accumulated depreciation | <u>9,760</u> |
| Total Assets | <u>1,938,188</u> |
| Deferred Outflows of Resources | |
| Deferred pension resources | <u>5,666,776</u> |
| Liabilities | |
| Salaries payable | 203,921 |
| Accounts and other payables | 31,996 |
| Due to other school districts | 4,570 |
| Due to other governments | 138 |
| Payroll deductions payable | 282,372 |
| Noncurrent liabilities | |
| Due within one year | 13,821 |
| Due in more than one year | 1,004,809 |
| Net pension liability | 3,320,395 |
| Other post employment benefit liability | <u>58,553</u> |
| Total Liabilities | <u>4,920,575</u> |
| Deferred Inflows of Resources | |
| Deferred pension resources | 3,095,812 |
| Deferred other post employment benefit resources | <u>29,863</u> |
| Total Deferred Inflows of Resources | <u>3,125,675</u> |
| Net Position | |
| Net investment in capital assets | (3,024) |
| Restricted for | |
| Medical assistance | 358,978 |
| Unrestricted | <u>(797,240)</u> |
| Total Net Position | <u>\$ (441,286)</u> |

Cannon Valley Special Education Cooperative
Fairbault, Minnesota
Statement of Activities
For the Year Ended June 30, 2020

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Administration | \$ 17,359 | \$ - | \$ 73,962 | \$ 56,603 |
| District support services | 457,710 | - | 349 | (457,361) |
| Elementary and secondary regular instruction | 122,287 | - | - | (122,287) |
| Special education instruction | 5,842,545 | 118,352 | 5,481,157 | (243,036) |
| Instructional support services | 3,501 | 75 | - | (3,426) |
| Pupil support services | 12,370 | - | - | (12,370) |
| Sites, buildings and equipment | 896,949 | 649,137 | - | (247,812) |
| Interest and other costs | 3,352 | - | - | (3,352) |
| | <u>\$ 7,356,073</u> | <u>\$ 767,564</u> | <u>\$ 5,555,468</u> | <u>(1,033,041)</u> |
| General Revenues | | | | |
| Grants and contributions not restricted to specific programs | | | | 997 |
| Investment earnings | | | | 20,723 |
| Total General Revenues | | | | <u>21,720</u> |
| Change in Net Position | | | | (1,011,321) |
| Net Position, July 1 | | | | <u>570,035</u> |
| Net Position, June 30 | | | | <u>\$ (441,286)</u> |

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FUND FINANCIAL STATEMENTS
CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

Cannon Valley Special Education Cooperative
 Fairbault, Minnesota
 Balance Sheet
 Governmental Fund
 June 30, 2020

| | General |
|--------------------------------------|--------------|
| Assets | |
| Cash and temporary investments | \$ 1,016,326 |
| Receivables | |
| Accounts | 7,696 |
| Intergovernmental | 654,722 |
| Prepaid items | 249,684 |
| Total Assets | \$ 1,928,428 |
| Liabilities and Fund Balances | |
| Liabilities | |
| Salaries payable | \$ 203,921 |
| Accounts and other payables | 31,996 |
| Due to other school districts | 4,570 |
| Due to other governments | 138 |
| Payroll deductions payable | 282,372 |
| Total Liabilities | 522,997 |
| Fund Balances | |
| Nonspendable | |
| Prepaid items | 249,684 |
| Restricted for | |
| Medical assistance | 358,978 |
| Unassigned | 796,769 |
| Total Fund Balances | 1,405,431 |
| Total Liabilities and Fund Balances | \$ 1,928,428 |

Cannon Valley Special Education Cooperative
 Fairbault, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Fund
 June 30, 2020

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

| | |
|--|----------------------------|
| Total Fund Balances - Governmental Funds | \$ 1,405,431 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental fund. | 9,760 |
| Governmental funds do not report long-term amounts related to pensions. | |
| Deferred outflows of pension resources | 5,666,776 |
| Deferred inflows of pension resources | (3,095,812) |
| Deferred inflows of other postemployment benefits resources | (29,863) |
| 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 | |
| Capital lease payable | (12,784) |
| Loan payable | (1,000,000) |
| Compensated absences payable | (5,846) |
| Other postemployment benefits liability | (58,553) |
| Net pension liability | <u>(3,320,395)</u> |
| Total Net Position - Governmental Activities | <u><u>\$ (441,286)</u></u> |

Cannon Valley Special Education Cooperative
Fairbault, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2020

| | General |
|--|--------------|
| Revenues | |
| Other local revenue | \$ 650,134 |
| Interest earned on investments | 20,723 |
| Revenue from state sources | 5,537,346 |
| Miscellaneous | 118,427 |
| Total Revenues | 6,326,630 |
| Expenditures | |
| Current | |
| Administration | 1,500 |
| District support services | 421,892 |
| Elementary and secondary regular instruction | 122,287 |
| Special education instruction | 4,851,968 |
| Instructional support services | 3,501 |
| Pupil support services | 12,370 |
| Sites, buildings and equipment | 896,949 |
| Debt service | |
| Principal | 6,430 |
| Interest and other costs | 3,352 |
| Total Expenditures | 6,320,249 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 6,381 |
| Fund Balances, July 1 | 1,399,050 |
| Fund Balances, June 30 | \$ 1,405,431 |

Cannon Valley Special Education Cooperative
 Fairbault, Minnesota
 Reconciliation of the Statement of
 Revenues, Expenditures and Changes in Fund Balances
 to Statement of Activities
 Governmental Fund
 For the Year Ended June 30, 2020

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

| | | |
|---|----|-----------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 6,381 |
| <p>Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p> | | |
| Depreciation expense | | (5,990) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of actives.</p> | | |
| Principal repayment | | 6,430 |
| <p>Long-term pension activity is not reported in governmental funds.</p> | | |
| Pension expense | | (1,032,188) |
| Direct aid contributions | | 18,122 |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | | |
| Compensated absences | | (653) |
| Other postemployment benefits expense | | (3,423) |
| Change in Net Position - Governmental Activities | | <u>\$ (1,011,321)</u> |

Cannon Valley Special Education Cooperative
Fairbault, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2020

| | Budget | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Other local revenue | \$ 649,137 | \$ 650,137 | \$ 650,134 | \$ (3) |
| Interest earned on investments | 2,000 | 24,000 | 20,723 | (3,277) |
| Revenue from state sources | 6,277,464 | 6,355,313 | 5,537,346 | (817,967) |
| Miscellaneous | 115,535 | 118,295 | 118,427 | 132 |
| Total Revenues | <u>7,044,136</u> | <u>7,147,745</u> | <u>6,326,630</u> | <u>(821,115)</u> |
| Expenditures | | | | |
| Current | | | | |
| Administration | 1,400 | 1,500 | 1,500 | - |
| District support services | 382,374 | 440,523 | 421,892 | 18,631 |
| Elementary and secondary regular instruction | 51,424 | 144,042 | 122,287 | 21,755 |
| Special education instruction | 5,506,373 | 5,421,186 | 4,851,968 | 569,218 |
| Instructional support services | 500 | 3,750 | 3,501 | 249 |
| Pupil support services | 24,500 | 26,000 | 12,370 | 13,630 |
| Sites, buildings and equipment | 937,969 | 942,069 | 896,949 | 45,120 |
| Debt service | | | | |
| Principal | 6,243 | 6,243 | 6,430 | (187) |
| Interest and other costs | 3,352 | 3,352 | 3,352 | - |
| Total Expenditures | <u>6,914,135</u> | <u>6,988,665</u> | <u>6,320,249</u> | <u>668,416</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | | | | |
| | 130,001 | 159,080 | 6,381 | (152,699) |
| Fund Balances, July 1 | | | | |
| | <u>1,399,050</u> | <u>1,399,050</u> | <u>1,399,050</u> | <u>-</u> |
| Fund Balances, June 30 | | | | |
| | <u>\$ 1,529,051</u> | <u>\$ 1,558,130</u> | <u>\$ 1,405,431</u> | <u>\$ (152,699)</u> |

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Cannon Valley Special Education Cooperative, (the Cooperative) is a public agency established by a Joint Powers Agreement entered into pursuant to Minnesota Statutes, Section 471.59. The four member school districts are listed in the Joint Powers Agreement. The primary objective of the Cooperative is to provide, by a cooperative effort, comprehensive special educational programs and other related services as can be efficiently and effectively operated by its group of four member Independent Districts. The four member Independent Districts are Faribault, Medford, Northfield and Owatonna Public Schools. The governing body of the Cooperative consists of one District Board member representative appointed by the respective school board of each member district.

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

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

In accordance with Minnesota Statutes, the Cooperative's board of directors has elected to control or be financially accountable for extracurricular student activities. Accordingly, all accounts and transactions are included in the financial statements within the General Fund.

B. District-wide and Fund Financial Statements

The cooperative-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the Cooperative.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Federal and State revenue is recognized in the year to which it applies according to accounting principles generally accepted in the United States of America. Minnesota statutes include Federal and State aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure was made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Intergovernmental revenues and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the Cooperative and are recognized as revenue at that time.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the Cooperative receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Cooperative must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Cooperative on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Description of Funds

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

Major Governmental Fund

The *General fund* is the Cooperative's primary operating fund. It accounts for all financial resources and transactions of the Cooperative.

When both restricted and unrestricted resources are available for use, it is the Cooperative's policy to use restricted resources first, then unrestricted resources as they are needed.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The Cooperative's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments or equity investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The Cooperative may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency and all of the investments have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school Cooperative with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Cooperative has not adopted a formal investment policy.

Cannon Valley Special Education Cooperative
 Faribault, Minnesota
 Notes to the Cooperative Financial Statements
 June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

All receivables are shown net of any allowance for uncollectibles. No allowances for uncollectibles have been recorded. It is expected that all receivables will be fully collected within one year.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both Cooperative-wide and fund financial statements.

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the Cooperative as assets with an initial, individual cost of more than \$5,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Property, plant, and equipment of the Cooperative are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|-------------------------|--------|
| Equipment and Machinery | 3 - 20 |

Deferred Outflows of Resources

In addition to assets, the statement of net financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Cooperative has one item that qualify for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. The pension resources result from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

It is the Cooperative's policy to permit certain employees to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the district-wide financial statements. The policy states that the individuals may carry over unused vacation days to be used, but not exceed the following contract year. The amount calculated as compensated absences payable for June 30, 2020 is \$5,846. The General fund is used to liquidate governmental compensated absences payable.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

Teachers Retirement Association (TRA)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the 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. Additional information can be found in Note 4.

Public Employees Retirement Association (PERA)

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERP and TRA is as follows:

| | GERP | TRA | Total Pension Expense |
|-----------------|------------|-----------|--------------------------|
| Pension Expense | \$ 324,088 | \$978,077 | \$ 1,302,165 |

Postemployment Benefits Other Than Pensions

Under Minnesota statute 471.61, subdivision 2b, public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees are able to add dependent coverage during open enrollment period or qualifying life event prior to retirement. All premiums are funded on a pay-as-you-go basis. The liability was determined, in accordance with GASB Statement No. 75, at January 1, 2018. The General fund is typically used to liquidate governmental other postemployment benefits payable.

Deferred Inflows of Resources

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Cooperative has one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the Cooperative is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Administrative Board (the Board), which is the Cooperative's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority. The board of directors passed a resolution authorizing the Director of Special Services and the Business Manager to assign fund balances and its intended uses.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The Cooperative considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the Cooperative would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Net Position

In the district-wide financial statements, net position represents the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Budgets are prepared for Cooperative governmental funds on the same basis and using the same accounting practices that are used in accounting and preparing financial statements for the funds. Budgets presented in the report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. Final budgeted amounts represent the originally adopted budget as amended.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not employed by the Cooperative because it is at present considered not necessary to assure effective budgeting control or to facilitate effective cash planning and control.

Cannon Valley Special Education Cooperative
 Faribault, Minnesota
 Notes to the Cooperative Financial Statements
 June 30, 2020

Note 3: Detailed Notes on all Funds

A. Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned or the Cooperative will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the School Board, the Cooperative maintains deposits at those depository banks which are members of the Federal Reserve System.

Minnesota statutes require that all Cooperative deposits be protected by insurance, surety bond or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other State or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Cooperative Treasurer or in a financial institution other than that furnishing the collateral.

At year end, the Cooperative's carrying amount of deposits was \$276,182 and the bank balance was \$468,264. Of the bank balance, \$250,000 was covered by Federal depository insurance. The remaining balance was covered by collateral held by the pledging financial institution's trust department in the Cooperative's name.

As of June 30, 2020, the Cooperative had the following investments:

| Types of Investments | Credit Quality/ Ratings (1) | Segmented Time Distribtuion (2) | Amount |
|---|-----------------------------------|---------------------------------------|-------------------|
| Pooled Investment at Amortized Costs | | | |
| Minnesota School District Liquid Asset Fund (MSDLAF) | AAAm | Under 6 months | <u>\$ 740,144</u> |

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

The Minnesota School District Liquid Asset Fund (MSDLAF) is a trust organized and existing under the laws of the State of Minnesota and the Minnesota Joint Powers Act, as amended. The trust was established for the purpose of allowing Minnesota school districts to pool their investment funds to obtain a competitive investment yield, while maintaining liquidity and preserving capital. The credit rating for the MSDLAF is AAAM. The weighted average days to maturity are 46 days. The Cooperative's investment in the MSDLAF is equal to the value of pool shares. The MSDLAF had a carrying amount of \$740,144 at year end.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 3: Detailed Notes on all Funds (Continued)

A reconciliation of cash and temporary investments as shown on the financial statements for the Cooperative follows:

| | |
|--|--------------------------------|
| Deposits | \$ 276,182 |
| Investments | <u>740,144</u> |
| Total Cash and Temporary Investments | <u><u>\$ 1,016,326</u></u> |

B. Intergovernmental Receivables

A summary of all intergovernmental receivables as of June 30, 2020 is as follows:

| | |
|---|------------------------------|
| | General |
| State Department of Education State grants | <u><u>\$ 654,722</u></u> |

C. Capital Assets

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

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---------------------------------|--------------------------|--------------------|---------------------------|
| Governmental Activities | | | | |
| Capital Assets Being Depreciated | | | | |
| Equipment | \$ 29,950 | \$ - | \$ - | \$ 29,950 |
| Less Accumulated Depreciation | | | | |
| Equipment | <u>(14,200)</u> | <u>(5,990)</u> | <u>-</u> | <u>(20,190)</u> |
| Total Capital Assets Being Depreciated, Net | <u>15,750</u> | <u>(5,990)</u> | <u>-</u> | <u>9,760</u> |
| Governmental Activities | | | | |
| Capital Assets, Net | <u><u>\$ 15,750</u></u> | <u><u>\$ (5,990)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 9,760</u></u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|-------------------------------|------------------------|
| Special Education Instruction | <u><u>\$ 5,990</u></u> |
|-------------------------------|------------------------|

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 3: Detailed Notes on all Funds (Continued)

D. Long-term Debt

Capital Leases

The Cooperative entered into three capital leases for copiers. The details are as follows:

| | Original Issue | Interest Rate | Issue Date | Final Maturity | Principal Outstanding | |
|-----------------|-------------------|------------------|---------------|-------------------|------------------------|------------------|
| | | | | | Due Within One Year | Total |
| Copier Lease #1 | \$ 4,700 | 5.33 % | 12/19/16 | 12/19/21 | \$ 1,291 | \$ 2,070 |
| Copier Lease #2 | 14,250 | 10.12 | 06/21/16 | 06/21/21 | 4,332 | 4,332 |
| Copier Lease #3 | 11,000 | 4.85 | 11/07/17 | 11/07/22 | 2,352 | 6,382 |
| Total | | | | | <u>\$ 7,975</u> | <u>\$ 12,784</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020 were as follows:

| Year Ending June 30 | Total |
|---|------------------|
| 2021 | \$ 9,782 |
| 2022 | 4,030 |
| 2023 | 1,331 |
| Total Minimum Lease Payments | 15,143 |
| Less Amount Representing Interest | (2,359) |
| Present Value of Minimum Lease Payments | <u>\$ 12,784</u> |

Assets related to the above outstanding lease obligations are as follows:

| | |
|--------------------------------|-----------------|
| Cost | |
| Equipment | \$ 29,950 |
| Less: Accumulated depreciation | (20,190) |
| Net | <u>\$ 9,760</u> |

Cannon Valley Special Education Cooperative
 Faribault, Minnesota
 Notes to the Cooperative Financial Statements
 June 30, 2020

Note 3: Detailed Notes on all Funds (Continued)

Operating Leases

On March 28, 2019, the Cooperative entered into an operating lease agreement on a copier for the period of April of 2019 through September of 2023. Rent expense under annual operating leases for the year ended June 30, 2020 was approximately \$261.

The Cooperative has entered into various operating leases for professional and technical support, classrooms, and office space. Rent expense under annual operating leases for the year ended June 30, 2020 was approximately \$677,550.

The Future minimum lease obligations as of June 30, 2020 are as follows:

| Year Ending June 30 | Amount |
|------------------------|------------|
| 2021 | \$ 669,184 |
| 2022 | 1,044 |
| 2023 | 261 |
| Total | \$ 670,489 |

Loans Payable

During fiscal year 2018, the Cooperative borrowed a total of \$1,000,000 from four districts to assist with cash flow. The loan will be repaid to the district's as excess fund balance is available. The balances owed to each district as of June 30, 2020 is as follows:

| District | Amount |
|---------------------------|--------------|
| Faribault Public Schools | \$ 318,827 |
| Medford Public Schools | 41,686 |
| Northfield Public Schools | 284,471 |
| Owatonna Public Schools | 355,016 |
| Total | \$ 1,000,000 |

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 3: Detailed Notes on all Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2020 was as follows:

| | Beginning Balance As Restated | Additions | Deductions | Ending Balance | Amounts Due Within One Year |
|------------------------------|-------------------------------------|------------------|--------------------|---------------------|-----------------------------------|
| Governmental Activities | | | | | |
| Capital Lease Payable | \$ 19,214 | \$ - | \$ (6,430) | \$ 12,784 | \$ 7,975 |
| Loans Payable | 1,000,000 | - | - | 1,000,000 | - |
| Compensated Absences Payable | 5,193 | 11,417 | (10,764) | 5,846 | 5,846 |
| Governmental Activities | | | | | |
| Total Long-term Liabilities | <u>\$ 1,024,407</u> | <u>\$ 11,417</u> | <u>\$ (17,194)</u> | <u>\$ 1,018,630</u> | <u>\$ 13,821</u> |

Note 4: Defined Benefit Pension Plans - Statewide

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

Disclosures relating to these plans follow:

A. Teachers Retirement Association (TRA)

1. 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 school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCR) administered by the State of Minnesota.

2. 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.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 4: Defined Benefit Pension Plans - Statewide (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 as described:

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

With these provisions:

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

or

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent 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.

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(is) by selecting one of the five plans, which 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 also 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 provisions in effect at the time they last terminated their public service.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

3. Contribution Rate

Per Minnesota statutes, chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

| Plan | Ending June 30, 2018 | | Ending June 30, 2019 | | Ending June 30, 2020 | |
|-------------|----------------------|----------|----------------------|----------|----------------------|----------|
| | Employee | Employer | Employee | Employer | Employee | Employer |
| Basic | 11.00% | 11.50% | 11.00% | 11.71% | 11.00% | 11.92% |
| Coordinated | 7.50% | 7.50% | 7.50% | 7.71% | 7.50% | 7.92% |

The Cooperative's contributions to TRA for the years ending June 30, 2020 and 2019 were \$178,743 and \$159,642, respectively. The Cooperative's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

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

| | |
|--|------------------------------|
| Employer Contributions Reported in TRA's CAFR Statement of Changes in Fiduciary Net Position | \$ 403,300,000 |
| Add Employer Contributions not Related to Future Contribution Efforts | (688,000) |
| Deduct TRA'S Contributions not Included in Allocation | <u>(486,000)</u> |
| Total Employer Contributions | 402,126,000 |
| Total Non-employer Contributions | <u>35,588,000</u> |
| Total Contributions Reported in Schedule of Employer and Non-employer Pension Allocations | <u><u>\$ 437,714,000</u></u> |

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

Cannon Valley Special Education Cooperative
 Faribault, Minnesota
 Notes to the Cooperative Financial Statements
 June 30, 2020

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

4. Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

| | |
|---------------------------|--|
| Valuation date | July 1, 2019 |
| Experience study | June 5, 2015 |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions | |
| Investment rate of return | 7.50% |
| Price inflation | 2.50% |
| Wage growth rate | 2.85% before July 1, 2028 and 3.25% thereafter |
| Projected salary increase | 2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% thereafter |
| Cost of living adjustment | 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually |

Mortality Assumption

| | |
|-----------------|---|
| Pre-retirement | RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale. |
| Post-retirement | RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. |
| Post-disability | RP-2014 disabled retiree mortality table, without adjustment. |

Cannon Valley Special Education Cooperative
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Notes to the Cooperative Financial Statements
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Note 4: Defined Benefit Pension Plans - Statewide (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 | 35.50 % | 5.10 % |
| International Equity | 17.50 | 5.30 |
| Private Markets | 25.00 | 5.90 |
| Fixed Income | 20.00 | 0.75 |
| Unallocated Cash | <u>2.00</u> | - |
| Total | <u><u>100.00 %</u></u> | |

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2018 is 6.00 years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions" and "Changes in Proportion" use the amortization period of 6.00 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5.00 years as required by GASB 68.

Changes in actuarial assumptions since the 2018 valuation:

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

Cannon Valley Special Education Cooperative
 Faribault, Minnesota
 Notes to the Cooperative Financial Statements
 June 30, 2020

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

5. Discount Rate

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

6. Net Pension Liability

At June 30, 2020, the Cooperative reported a liability of \$2,358,388 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Cooperative's proportion of the net pension liability was based on the Cooperative's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School Cooperative. The Cooperative's proportionate share was 0.037 percent which was an increase of 0.0044 percent from its proportion measured as of June 30, 2018.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the Cooperative 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 Cooperative were as follows:

| | |
|--|--------------|
| Cooperative's Proportionate Share of Net Pension Liability | \$ 2,358,388 |
| State's Proportionate Share of Net Pension Liability Associated with the Cooperative | 208,843 |

For the year ended June 30, 2020, the Cooperative recognized pension expense of \$962,202. It also recognized \$15,875 as an increase to pension expense for the support provided by direct aid.

On June 30, 2020, the Cooperative had deferred resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ 29,402 | \$ 53,077 |
| Changes in Actuarial Assumptions | 2,123,374 | 2,758,874 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | - | 126,467 |
| Changes in Proportion | 2,577,820 | - |
| Contributions to TRA Subsequent to the Measurement Date | 178,743 | - |
| Total | \$ 4,909,339 | \$ 2,938,418 |

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Deferred outflows of resources totaling \$178,743 related to pensions resulting from the Cooperative's 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, 2021. Other deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| | | |
|------|--|------------|
| 2021 | | \$ 760,824 |
| 2022 | | 760,824 |
| 2023 | | 773,572 |
| 2024 | | (498,674) |
| 2025 | | (4,368) |

7. Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

| Cooperative's Proportionate Share of NPL | | |
|--|-----------------|-------------------------------|
| 1 Percent Decrease (6.50%) | Current (7.50%) | 1 Percent Increase (8.50%) |
| \$ 3,759,847 | \$ 2,358,388 | \$ 1,202,906 |

The Cooperative'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.

8. Pension Plan Fiduciary Net Position

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

9. Subsequent Events and the Covid-19 Pandemic Subsequent to Year-End

The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on TRA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2019.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

B. Public Employees Retirement Association (PERA)

1. Plan Description

The Cooperative participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (GERP)

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

2. 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.

GERP Benefits

GERP benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

3. 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 6.50 percent of their annual covered salary in the fiscal year 2019 and the Cooperative was required to contribute 7.50 percent for Coordinated Plan. The Cooperative's contributions to the General Employees Fund for the years ending June 30, 2020 and 2019 were \$87,587 and \$92,513, respectively. The Cooperative's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

4. Pension Costs

At June 30, 2020, the Cooperative reported a liability of \$962,007 for its proportionate share of the General Employee Fund's net pension liability. The Cooperative's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. 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 Cooperative totaled \$29,999. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Cooperative's proportion of the net pension liability was based on the Cooperative's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the Cooperative's proportion was 0.0174 percent which was an increase of 0.0021 percent from its proportion measured as of June 30, 2018.

| | |
|---|--------------------------|
| Cooperative's Proportionate Share of the Net Pension Liability | \$ 962,007 |
| State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Cooperative | <u>29,999</u> |
| Total | <u><u>\$ 992,006</u></u> |

For the year ended June 30, 2020 the Cooperative recognized pension expense of \$321,841 for its proportionate share of General Employees Plan's pension expense. In addition, the Cooperative recognized an additional \$2,247 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2020 the Cooperative reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences Between Expected and Actual Economic Experience | \$ 25,096 | \$ 20,946 |
| Changes in Actuarial Assumptions | 54,054 | 68,382 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | - | 68,065 |
| Changes in Proportion | 590,700 | 1 |
| Contributions to GERF Subsequent to the Measurement Date | <u>87,587</u> | <u>-</u> |
| Total | <u><u>\$ 757,437</u></u> | <u><u>\$ 157,394</u></u> |

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

The \$87,587 reported as deferred outflows of resources related to pensions resulting from the Cooperative's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|------|------------|
| 2021 | \$ 253,133 |
| 2022 | 241,935 |
| 2023 | 15,844 |
| 2024 | 1,544 |

5. Actuarial Assumptions

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

| | |
|------------------------------|----------------|
| Inflation | 2.50% per year |
| Active Member Payroll Growth | 3.25% per year |
| Investment Rate of Return | 7.50% |

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

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GEF was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2020:

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
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Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic Equity | 35.50 % | 5.10 % |
| International Equity | 25.00 | 5.90 |
| Fixed Income | 20.00 | 0.75 |
| Private Markets | 17.50 | 5.90 |
| Unallocated Cash | <u>2.00</u> | - |
| Total | <u><u>100.00 %</u></u> | |

6. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

The following presents the Cooperative'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 Cooperative'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:

| <u>Cooperative's Proportionate Share of NPL</u> | | |
|---|------------------------|-----------------------------------|
| <u>1 Percent Decrease (6.50%)</u> | <u>Current (7.50%)</u> | <u>1 Percent Increase (8.50%)</u> |
| \$ 1,581,488 | \$ 962,007 | \$ 450,503 |

8. Pension Plan Fiduciary Net Position

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

Cannon Valley Special Education Cooperative
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Note 5: Other Information

A. Risk Management

The Cooperative is exposed to various risks of loss related to torts: theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Cooperative carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The Cooperative's management is not aware of any incurred but not reported claims.

Note 6: Postemployment Benefits Other Than Pensions

A. Plan Description

The Cooperative operates a single-employer retiree benefit plan ("the Plan") that provides health, life and dental insurance to eligible employees and their families through the Cooperative's health insurance plan. The full cost of the benefits is covered by the plan. Benefit and eligibility provisions are established through negotiations between the Cooperative and various unions representing Cooperative employees and are renegotiated at various times. The Plan does not issue a publicly available report.

At June 30, 2020, the following employees were covered by the benefit terms:

Active Plan Members

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B. Funding Policy

Contribution requirements are also negotiated between the Cooperative and union representatives. The Cooperative contributes various amounts based on contracts in effect at retirement for eligible retired plan members. During the year the Cooperative had implicit contributions in the amount of \$0. There were no direct contributions made to the plan during the year.

C. Actuarial Methods and Assumptions

The Cooperative's total OPEB liability of \$58,553 was measured as of July 1, 2019, and the total OPEB liability was determined by an actuarial valuation as of July 1, 2018.

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

| | |
|------------------------------|--|
| Discount Rate | 3.10% |
| 20-Year Municipal Bond Yield | 3.10% |
| Inflation Rate | 2.50% |
| Salary Increases | 3.00% |
| Medical Trend Rate | 6.50% as of July 1, 2019 grading to 5.00% over 6 years |
| Dental Trend Rate | N/A |

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June 30, 2020

Note 6: Postemployment Benefits Other Than Pensions (Continued)

The discount rate used to measure the total OPEB liability was 3.10 percent. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2019 valuation were based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.

D. Changes in the Total OPEB Liability

| | Total OPEB Liability (a) |
|--|--------------------------------|
| | \$ |
| Balance at June 30, 2019 | 84,993 |
| Changes for the Year: | |
| Service Cost | 32,348 |
| Interest | 3,984 |
| Assumption Changes | (12,382) |
| Plan Changes | (28,325) |
| Differences between Expected and Actual Experience | (21,747) |
| Benefit Payments | (318) |
| Net Changes | (26,440) |
| Balance at June 30, 2020 | \$ 58,553 |

Since the prior measurement date, the following assumptions changed:

- 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 33.00% per year for all employees to rates which vary by service and contract group.
- The Discount rate was changed from 3.40% to 3.10%.

Since the prior measurement date, the following benefit terms changed:

- The subsidized post-employment benefit for nonunion administrators was replaced with a defined contribution benefit (not valued under GASB 75).
- The years of service required to be eligible for a benefit (implicit rate subsidy) for non-TRA employees was increased from three years to five years.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 6: Postemployment Benefits Other Than Pensions (Continued)

E. Sensitivity of the Total OPEB Liability

The following presents the total OPEB liability of the Cooperative, as well as what the Cooperative's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.10 percent) or 1-percentage-point higher (4.10 percent) than the current discount rate:

| 1 Percent Decrease (2.10%) | Current (3.10%) | 1 Percent Increase (4.10%) |
|-------------------------------|-----------------|-------------------------------|
| \$ 64,425 | \$ 58,553 | \$ 53,081 |

The following presents the total OPEB liability of the Cooperative, as well as what the Cooperative's total OPEB liability would be if it were calculated using a Healthcare Cost Trend Rate that is 1-percentage point lower (5.50 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.50 percent decreasing to 6.00 percent) than the current Healthcare Cost Trend Rate:

| 1 Percent Decrease (5.50% Decreasing to 4.00%) | Healthcare Cost Trend Rates (6.50% Decreasing to 5.00%) | 1 Percent Increase (7.50% Decreasing to 6.00%) |
|--|--|--|
| \$ 48,926 | \$ 58,553 | \$ 70,549 |

F. OPEB Expense

For the year ended June 30, 2020, the Cooperative recognized OPEB expense of \$3,423.

Note 7: Defined Contribution Plan

The Cooperative provides eligible employees future retirement benefits through the Cooperative's 403(b) Plan (the Plan). Employees of the Cooperative are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a Cooperative match of employee contributions up to the qualifying amounts set forth by the Governing Board. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The Cooperative contributions for the year ended June 30, 2020 was \$21,085. The employee contributions was \$26,534 for the year ended June 30, 2020.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Notes to the Cooperative Financial Statements
June 30, 2020

Note 8: Flexible Benefit Plan

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

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

Payments of health insurance premiums are made by the Cooperative directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

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

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

Note 9: Commitments

State Programs

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

Note 10: Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Cooperative is unable to determine if it will have a material impact to its operations.

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REQUIRED SUPPLEMENTARY INFORMATION

CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Required Supplementary Information
For the Year Ended June 30, 2020

Schedule of Employer's Share of TRA Net Pension Liability

| Fiscal Year Ending | Cooperative's Proportion of the Net Pension Liability | Cooperative's Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the District (b) | Total (a+b) | Cooperative's Covered Payroll (c) | Cooperative's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------------|--|--|--|----------------|--|---|---|
| 06/30/19 | 0.0370 % | \$ 2,358,388 | \$ 208,843 | \$ 2,567,231 | \$2,070,586 | - % | 78.2 % |
| 06/30/18 | 0.0326 | 2,049,651 | 192,577 | 2,242,228 | 1,802,933 | - | 78.1 |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's TRA Contributions

| Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Cooperative's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) |
|--------------------------|--|---|---|--|--|
| 06/30/20 | \$ 178,743 | \$ 178,743 | \$ - | \$ 2,256,861 | 7.92 % |
| 06/30/19 | 159,642 | 159,642 | - | 2,070,856 | 7.71 |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2020

Notes to the Required Supplementary Information - TRA

Changes in Actuarial Assumptions

2019 - None

2018 - The investment return assumption was changed from 8.50% to 7.50%. The price inflation assumption was lowered from 3.00% to 2.50%. The payroll growth assumption was lowered from 3.50% to 3.00%. The wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for the next 10 years, and 0.75% thereafter. The total salary increase assumption was adjusted by the wage inflation change. The amortization date for the funding of the Unfunded Actuarial Accrued Liability (UAAL) was reset to June 30, 2048 (30 years). A mechanism in the law that provided the TRA Board with some authority to set contribution rates was eliminated.

2017 - Not applicable. Fiscal year 2019 is the first year with a net pension liability.

2016 - Not applicable. Fiscal year 2019 is the first year with a net pension liability.

2015 - Not applicable. Fiscal year 2019 is the first year with a net pension liability.

Changes in Plan Provisions

2019 - None

2018 - The 2018 Omnibus Pension Bill contained a number of changes:

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

2017 - None

2016 – None

2015 - Not applicable. Fiscal year 2019 is the first year with a net pension liability.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2020

Schedule of Employer's Share of PERA Net Pension Liability

| Year Ending | Cooperative's Proportion of the Net Pension Liability | Cooperative's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the District (b) | Total (a+b) | Cooperative's Covered Payroll (c) | Cooperative's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------|---|--|---|-------------|-----------------------------------|---|--|
| 06/30/19 | 0.0174 % | \$ 962,007 | \$ 29,999 | \$ 992,006 | \$ 1,233,504 | - % | 80.2 % |
| 06/30/18 | 0.0153 | 848,781 | 27,838 | 876,619 | 1,029,773 | - | 79.5 |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions

| Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Cooperative's Covered Payroll (c) | Contributions as a Percentage of Covered-Employee Payroll (b/c) |
|--------------------|---------------------------------------|--|--|-----------------------------------|---|
| 06/30/20 | \$ 87,587 | \$ 87,587 | \$ - | \$ 1,167,823 | 7.50 % |
| 06/30/19 | 92,513 | 92,513 | - | 1,233,504 | 7.50 |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information - PERA

Changes in Actuarial Assumptions

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

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

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2020

Changes in Plan Provisions

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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

2017 - 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 – None

2015 - 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.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2020

Schedule of Changes in the Cooperative's Total OPEB Liability and Related Ratios

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|------------------|
| Total OPEB Liability | | | |
| Service cost | \$ 32,348 | \$ 37,568 | \$ 36,474 |
| Interest | 3,984 | 2,797 | 1,472 |
| Changes in benefit terms | (28,325) | - | - |
| Differences between expected and actual experience | (21,747) | - | - |
| Changes in assumptions | (12,382) | - | - |
| Benefit payments | <u>(318)</u> | <u>(153)</u> | - |
| Net Change in Total OPEB Liability | (26,440) | 40,212 | 37,946 |
| | | | |
| Total OPEB Liability - Beginning | <u>84,993</u> | <u>44,781</u> | <u>6,835</u> |
| | | | |
| Total OPEB Liability - Ending | <u>\$ 58,553</u> | <u>\$ 84,993</u> | <u>\$ 44,781</u> |
| | | | |
| Covered - Employee Payroll | \$ 3,601,902 | \$ 3,074,397 | \$ 2,984,851 |
| | | | |
| Cooperative's Total OPEB Liability as a Percentage of Covered Employee Payroll | 1.63 | 2.76 % | 1.50 |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information - OPEB

Changes in Actuarial Assumptions

2019 - 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 33.00% per year for all employees to rates which vary by service and contract group. The Discount rate was changed from 3.40% to 3.10%.

2018 – Not applicable. This was the first actuarial valuation completed for the Cooperative.

Changes in Benefits

2019 - The subsidized post-employment benefit for nonunion administrators was replaced with a defined contribution benefit (not valued under GASB 75). The years of service required to be eligible for a benefit (implicit rate subsidy) for non-TRA employees was increased from three years to five years.

2018 – Not applicable. This was the first actuarial valuation completed for the Cooperative.

INDIVIDUAL FUND SCHEDULE AND TABLE

CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

Cannon Valley Special Education Cooperative
Fairbault, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued on the Following Page)
For the Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Other local revenue | \$ 649,137 | \$ 650,137 | \$ 650,134 | \$ (3) |
| Interest earned on investments | 2,000 | 24,000 | 20,723 | (3,277) |
| Revenue from state sources | 6,277,464 | 6,355,313 | 5,537,346 | (817,967) |
| Miscellaneous | 115,535 | 118,295 | 118,427 | 132 |
| Total Revenues | <u>7,044,136</u> | <u>7,147,745</u> | <u>6,326,630</u> | <u>(821,115)</u> |
| Expenditures | | | | |
| Current | | | | |
| Administration | | | | |
| Other expenditures | <u>1,400</u> | <u>1,500</u> | <u>1,500</u> | <u>-</u> |
| District support services | | | | |
| Salaries | 198,380 | 205,465 | 205,541 | (76) |
| Employee benefits | 71,544 | 90,548 | 88,422 | 2,126 |
| Purchased services | 79,600 | 104,300 | 96,639 | 7,661 |
| Travel | 5,000 | 9,000 | 7,868 | 1,132 |
| Supplies and materials | 27,050 | 29,000 | 20,993 | 8,007 |
| Other expenditures | 800 | 2,210 | 2,429 | (219) |
| Total district support services | <u>382,374</u> | <u>440,523</u> | <u>421,892</u> | <u>18,631</u> |
| Elementary and secondary regular instruction | | | | |
| Purchased services | 600 | 24,600 | 9,080 | 15,520 |
| Supplies and materials | 50,824 | 119,442 | 113,207 | 6,235 |
| Total elementary and secondary regular instruction | <u>51,424</u> | <u>144,042</u> | <u>122,287</u> | <u>21,755</u> |
| Special education instruction | | | | |
| General special education | | | | |
| Salaries | 275,312 | 356,149 | 459,815 | (103,666) |
| Employee benefits | 145,001 | 178,857 | 192,493 | (13,636) |
| Purchased services | 54,400 | 41,400 | 32,779 | 8,621 |
| Supplies and materials | - | 2,850 | 3,207 | (357) |
| Total general special education | <u>474,713</u> | <u>579,256</u> | <u>688,294</u> | <u>(109,038)</u> |
| Speech/language impaired | | | | |
| Salaries | - | 44,608 | 44,159 | 449 |
| Employee benefits | - | 7,622 | 7,072 | 550 |
| Purchased services | - | 1,700 | 1,423 | 277 |
| Supplies and materials | - | 500 | 399 | 101 |
| Total speech/language impaired | <u>-</u> | <u>54,430</u> | <u>53,053</u> | <u>1,377</u> |
| Developmental cognitive disabilities mild to moderate | | | | |
| Salaries | 919,521 | 861,407 | 787,768 | 73,639 |
| Employee benefits | 397,726 | 402,840 | 356,526 | 46,314 |
| Purchased services | 16,050 | 17,700 | 14,622 | 3,078 |
| Supplies and materials | 30,600 | 29,200 | 13,270 | 15,930 |
| Total development cognitive disabilities mild to moderate | <u>1,363,897</u> | <u>1,311,147</u> | <u>1,172,186</u> | <u>138,961</u> |
| Physically impaired | | | | |
| Purchased services | <u>5,000</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Deaf/hard of hearing | | | | |
| Purchased services | <u>10,200</u> | <u>7,200</u> | <u>3,514</u> | <u>3,686</u> |
| Emotional/behavioral disorder | | | | |
| Salaries | 1,591,658 | 1,554,716 | 1,330,286 | 224,430 |
| Employee benefits | 593,066 | 577,466 | 496,137 | 81,329 |
| Purchased services | 105,500 | 101,300 | 46,228 | 55,072 |
| Supplies and materials | 41,476 | 40,250 | 30,311 | 9,939 |
| Other expenditures | 2,800 | 2,800 | 275 | 2,525 |
| Total emotional/behavior disorder | <u>2,334,500</u> | <u>2,276,532</u> | <u>1,903,237</u> | <u>373,295</u> |

Cannon Valley Special Education Cooperative
Fairbault, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended June 30, 2020

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--------------------------------------|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Expenditures (Continued) | | | | |
| Current (continued) | | | | |
| Autistic spectrum disorder | | | | |
| Salaries | \$ 667,732 | \$ 565,369 | \$ 452,566 | \$ 112,803 |
| Employee benefits | 247,309 | 229,090 | 178,035 | 51,055 |
| Purchased services | 15,700 | 24,700 | 35,518 | (10,818) |
| Supplies and materials | 21,400 | 14,630 | 10,861 | 3,769 |
| Other expenditures | 1,200 | 1,200 | - | 1,200 |
| Total autistic spectrum disorder | <u>953,341</u> | <u>834,989</u> | <u>676,980</u> | <u>158,009</u> |
| Special education - aggregate | | | | |
| Salaries | 231,743 | 227,099 | 237,946 | (10,847) |
| Employee benefits | 118,390 | 119,573 | 110,517 | 9,056 |
| Purchased services | 8,889 | 6,910 | 4,008 | 2,902 |
| Supplies and materials | 4,500 | 3,750 | 1,994 | 1,756 |
| Other expenditures | 1,200 | 300 | 239 | 61 |
| Total special education - aggregate | <u>364,722</u> | <u>357,632</u> | <u>354,704</u> | <u>2,928</u> |
| Total special education instruction | <u>5,506,373</u> | <u>5,421,186</u> | <u>4,851,968</u> | <u>569,218</u> |
| Instructional support services | | | | |
| Purchased services | - | 750 | 750 | - |
| Supplies and materials | 500 | 3,000 | 2,751 | 249 |
| Total instructional support services | <u>500</u> | <u>3,750</u> | <u>3,501</u> | <u>249</u> |
| Pupil support services | | | | |
| Purchased services | 24,500 | 22,000 | 10,335 | 11,665 |
| Travel | - | 500 | 454 | 46 |
| Supplies and materials | - | 3,500 | 1,581 | 1,919 |
| Total pupil support services | <u>24,500</u> | <u>26,000</u> | <u>12,370</u> | <u>13,630</u> |
| Sites, buildings and equipment | | | | |
| Purchased services | 861,609 | 851,509 | 818,174 | 33,335 |
| Supplies and materials | 8,500 | 25,200 | 23,100 | 2,100 |
| Other expenditures | 67,860 | 65,360 | 55,675 | 9,685 |
| Total sites, buildings and equipment | <u>937,969</u> | <u>942,069</u> | <u>896,949</u> | <u>45,120</u> |
| Total current | <u>6,904,540</u> | <u>6,979,070</u> | <u>6,310,467</u> | <u>668,603</u> |
| Debt service | | | | |
| Principal | 6,243 | 6,243 | 6,430 | (187) |
| Interest and other costs | 3,352 | 3,352 | 3,352 | - |
| Total debt service | <u>9,595</u> | <u>9,595</u> | <u>9,782</u> | <u>(187)</u> |
| Total Expenditures | <u>6,914,135</u> | <u>6,988,665</u> | <u>6,320,249</u> | <u>668,416</u> |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | 130,001 | 159,080 | 6,381 | (152,699) |
| Fund Balances, July 1 | <u>1,399,050</u> | <u>1,399,050</u> | <u>1,399,050</u> | <u>-</u> |
| Fund Balances, June 30 | <u>\$ 1,529,051</u> | <u>\$ 1,558,130</u> | <u>\$ 1,405,431</u> | <u>\$ (152,699)</u> |



Fiscal Compliance Report - 6/30/2020
District: CANNON VALLEY SPEC ED (6094-52)

| | Audit | UFARS | Audit - UFARS | | Audit | UFARS | Audit - UFARS |
|---|-------------|--------------------|---------------|---|-------|------------|---------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenue | \$6,326,630 | <u>\$6,326,623</u> | \$7 | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$6,320,249 | <u>\$6,320,242</u> | \$7 | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | | <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$249,684 | <u>\$249,684</u> | <u>\$0</u> | 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | | <i>Restricted / Reserved:</i> | | | |
| 4.01 Student Activities | \$0 | <u>\$0</u> | <u>\$0</u> | 4.07 Capital Projects Levy | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.02 Scholarships | \$0 | <u>\$0</u> | <u>\$0</u> | 4.13 Project Funded by COP | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.03 Staff Development | \$0 | <u>\$0</u> | <u>\$0</u> | 4.67 LTFM | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.07 Capital Projects Levy | \$0 | <u>\$0</u> | <u>\$0</u> | <i>Restricted:</i> | | | |
| 4.08 Cooperative Revenue | \$0 | <u>\$0</u> | <u>\$0</u> | 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.13 Project Funded by COP | \$0 | <u>\$0</u> | <u>\$0</u> | <i>Unassigned:</i> | | | |
| 4.14 Operating Debt | \$0 | <u>\$0</u> | <u>\$0</u> | 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.16 Levy Reduction | \$0 | <u>\$0</u> | <u>\$0</u> | | | | |
| 4.17 Taconite Building Maint | \$0 | <u>\$0</u> | <u>\$0</u> | 07 DEBT SERVICE | | | |
| 4.24 Operating Capital | \$0 | <u>\$0</u> | <u>\$0</u> | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.26 \$25 Taconite | \$0 | <u>\$0</u> | <u>\$0</u> | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.27 Disabled Accessibility | \$0 | <u>\$0</u> | <u>\$0</u> | <i>Non Spendable:</i> | | | |
| 4.28 Learning & Development | \$0 | <u>\$0</u> | <u>\$0</u> | 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.34 Area Learning Center | \$0 | <u>\$0</u> | <u>\$0</u> | <i>Restricted / Reserved:</i> | | | |
| 4.35 Contracted Alt. Programs | \$0 | <u>\$0</u> | <u>\$0</u> | 4.25 Bond Refundings | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.36 State Approved Alt. Program | \$0 | <u>\$0</u> | <u>\$0</u> | 4.33 Maximum Effort Loan Aid | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.38 Gifted & Talented | \$0 | <u>\$0</u> | <u>\$0</u> | 4.51 QZAB Payments | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.40 Teacher Development and Evaluation | \$0 | <u>\$0</u> | <u>\$0</u> | 4.67 LTFM | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.41 Basic Skills Programs | \$0 | <u>\$1</u> | <u>(\$1)</u> | <i>Restricted:</i> | | | |
| 4.48 Achievement and Integration | \$0 | <u>\$0</u> | <u>\$0</u> | 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.49 Safe School Crime - Crime Levy | \$0 | <u>\$0</u> | <u>\$0</u> | <i>Unassigned:</i> | | | |
| 4.51 QZAB Payments | \$0 | <u>\$0</u> | <u>\$0</u> | 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | <u>\$0</u> | | | | |
| 4.53 Unfunded Sev & Retirement Levy | \$0 | <u>\$0</u> | <u>\$0</u> | 08 TRUST | | | |
| 4.59 Basic Skills Extended Time | \$0 | <u>\$0</u> | <u>\$0</u> | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.67 LTFM | \$0 | <u>\$0</u> | <u>\$0</u> | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.72 Medical Assistance | \$358,978 | <u>\$358,977</u> | <u>\$1</u> | <i>Restricted / Reserved:</i> | | | |
| 4.73 PPP Loan | \$0 | <u>\$0</u> | <u>\$0</u> | 4.01 Student Activities | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.74 EIDL Loan | \$0 | <u>\$0</u> | <u>\$0</u> | 4.02 Scholarships | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | | 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> | | | | |
| 4.75 Title VII Impact Aid | \$0 | <u>\$0</u> | <u>\$0</u> | 18 CUSTODIAL | | | |
| 4.76 Payments in Lieu of Taxes | \$0 | <u>\$0</u> | <u>\$0</u> | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Committed:</i> | | | | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.18 Committed for Separation | \$0 | <u>\$0</u> | <u>\$0</u> | <i>Restricted / Reserved:</i> | | | |
| 4.61 Committed Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> | 4.01 Student Activities | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Assigned:</i> | | | | 4.02 Scholarships | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.62 Assigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> | 4.48 Achievement and Integration | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | | 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.22 Unassigned Fund Balance | \$796,769 | <u>\$796,769</u> | <u>\$0</u> | | | | |
| | | | | 20 INTERNAL SERVICE | | | |
| 02 FOOD SERVICES | | | | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> | 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | | | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> | 25 OPEB REVOCABLE TRUST | | | |
| <i>Restricted / Reserved:</i> | | | | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.52 OPEB Liab Not In Trust | | | | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---|-----|------------|------------|
| | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.74 EIDL Loan | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 04 COMMUNITY SERVICE | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | |
| 4.26 \$25 Taconite | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.31 Community Education | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.32 E.C.F.E | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.40 Teacher Development and Evaluation | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.44 School Readiness | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.47 Adult Basic Education | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.73 PPP Loan | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.74 EIDL Loan | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---|-----|------------|------------|
| | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |

45 OPEB IRREVOCABLE TRUST

| | | | |
|---|-----|------------|------------|
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |

47 OPEB DEBT SERVICE

| | | | |
|---------------------------------|-----|------------|------------|
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.25 Bond Refundings | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

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OTHER REPORTS

CANNON VALLEY SPECIAL EDUCATION COOPERATIVE
FARIBAULT, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Members of the Administrative Board
Cannon Valley Special Education Cooperative
Faribault, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Cannon Valley Special Education Cooperative, Faribault, Minnesota (the Cooperative) as of and for the year ended June 30, 2020, and the related notes to the financial statements which collectively comprise the Districts basic financial statements, and have issued our report thereon dated November 13, 2020.

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

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

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
November 13, 2020



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

Members of the Administrative Board
Cannon Valley Special Education Cooperative
Faribault, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Cannon Valley Special Education Cooperative, Faribault, Minnesota, (the Cooperative) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements, and have issued our report thereon dated November 13, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying Findings and Responses as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

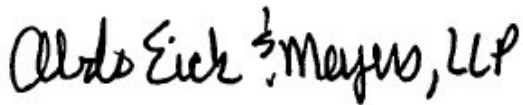
As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

The Cooperative's Response to Findings

The Cooperative's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Cooperative's response and, accordingly, we express no opinion on them.

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 Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
November 13, 2020

Cannon Valley Special Education Cooperative

Faribault, Minnesota

Schedule of Findings and Responses

For the Year Ended June 30, 2020

Finding

Description

2020-001

Segregation of Duties

Condition:

During our audit we reviewed internal control procedures and found the Cooperative to have limited segregation of duties in the areas as noted below.

Criteria:

There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Effect:

The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in segregation of duties and internal controls can result in undetected errors or misappropriation of assets of the Cooperative.

Internal Control Over Cash Receipts

Cause:

As a result of the small staff, the Finance and Payroll Coordinator sets up and maintains customers, posts to the general ledger, prepares deposits, takes deposits to the bank, generates billing statements, and maintains receipts and accounts receivables. The Executive Assistant opens mail.

Recommendation:

While we recognize staff is not large enough to eliminate this deficiency, it is important that the Board is aware of this condition and monitor all financial information.

Internal Control Over Cash Disbursements

Cause:

As a result of the small staff, the Finance and Payroll Coordinator maintains and controls checks, matches invoices to purchase orders, maintains and posts to the general ledger, prepares checks and maintains purchase journal and accounts payable records. The Executive Assistant sets up and maintains vendors and opens mail.

Recommendation:

While we recognize staff is not large enough to eliminate this deficiency, it is important that the Board is aware of this condition and monitor all financial information.

Internal Control Over Payroll

Cause:

As a result of the small staff, the Finance and Payroll Coordinator sets up and maintains employee records, runs payroll, maintains and posts to the general ledger, initiates payroll transfers for direct deposit, reconciles bank accounts and prepares payroll tax returns.

Recommendation:

While we recognize staff is not large enough to eliminate this deficiency, it is important that the Board is aware of this condition and monitor all financial information.

Management Response:

The Cooperative is aware of the limited segregation of duties and will continue to review internal controls and make changes when they are feasible.

Cannon Valley Special Education Cooperative
Faribault, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended June 30, 2020

Finding

Description

2020-002

Financial Report Preparation

Condition:

We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria:

Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause:

From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

Effect:

The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation:

It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the Cooperative is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the Cooperative should agree its financial software to the numbers reported in the financial statements.

Management Response:

Management is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small cooperatives. Each year, the Cooperative has a presentation from our auditor to the Board of Education after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight of management and Board to monitor the deficiency.



Corrective Action Plan (CAP):

2020-002 Financial Report Preparation

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The Cooperative will continue to have the auditor prepare the financial statements and will continue to have the board review the financial statements. The Cooperative is aware of the deficiency and is relying on oversight of management and Board to monitor the deficiency.

3. Official Responsible for Ensuring CAP

Sarah McGuire, Executive Director, is the official responsible for ensuring corrective action plan.

4. Planned Completion Date for CAP

Continuous.

5. Plan to Monitor Completion of CAP

The Cannon Valley Special Education Board will be monitoring this corrective action plan.

Sincerely,

Sarah McGuire
Executive Director



Corrective Action Plan (CAP):

2020-001 Segregation of Duties

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The Cooperative is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

3. Official Responsible for Ensuring CAP

Sarah McGuire, Executive Director, is the official responsible for ensuring continued implementation of certain control measures.

4. Planned Completion Date for CAP

Continuous.

5. Plan to Monitor Completion of CAP

The Cannon Valley Special Education Board will be monitoring this corrective action plan.

Sincerely,

Sarah McGuire
Executive Director