INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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THIEF RIVER FALLS, MINNESOTA
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ROSTER OF SCHOOL OFFICIALS

June 30, 2021

Wayne Nomeland	Chairman
Misty Hempel	Vice-Chairman
Mike Spears	Clerk
Chris Melbye	Treasurer
Craig Mattson	Director
Michelle Westerman	Director
Ryan Walseth	Director
Tanya Monson-Ek	District Business Manager
Donita Stepan	Superintendent

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 564
Thief River Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, notes to required supplementary information, and schedules as listed in the table of contents as required supplementary information 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 District's basic financial statements. The roster of school officials, combining statements, schedules, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

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

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 12, 2021

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This section of Independent School District No. 564's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

For the year ending June 30, 2021, the District's unassigned fund balance decreased from $3,478,461 to $3,433,654 or a decrease of $44,807.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

- *Governmental activities*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

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

The District has two kinds of funds:

Governmental funds: The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

The District maintains six individual governmental funds. 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 and debt service fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

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

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $(3,052,738) on June 30, 2021 (see details in Table A-1). This was a decrease of 36.7 percent from the prior year.

Table A-1
Statement of Net Position

	2021	2020	Total Percentage Change
Current and Other Assets	$ 42,562,253	$ 33,601,663	26.7 %
Capital Assets	58,705,019	60,958,165	(3.7)
Total Assets	101,267,272	94,559,828	7.1
Deferred Outflows of Resources	6,854,181	11,014,825	(37.8)
Long-term Liabilities	69,112,508	79,094,185	(12.6)
Other Liabilities	23,419,838	4,390,138	433.5
Total Liabilities	92,532,346	83,484,323	10.8
Deferred Inflows of Resources	18,641,845	24,323,530	(23.4)
Net Position			
Net Investment in Capital Assets	17,109,398	17,200,891	(0.5)
Restricted	1,988,026	2,022,158	(1.7)
Unrestricted	(22,150,162)	(21,456,249)	(3.2)
Total Net Position	$ (3,052,738)	$ (2,233,200)	(36.7) %

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	2021	2020	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 606,282	$ 1,026,170	(40.9) %
Operating Grants and Contributions	6,474,216	5,629,515	15.0
Capital Grants and Contributions	837,912	2,544,836	(67.1)
General Revenues			
Property Taxes	6,100,935	6,157,345	(0.9)
Unrestricted State Aid	14,860,882	15,086,362	(1.5)
Other Sources	242,012	1,243,419	(80.5)
Total Revenues	29,122,239	31,687,647	(8.1)
Expenses			
Administration	1,650,110	1,628,713	1.3
District Support Services	551,740	576,722	(4.3)
Elementary & Secondary Regular Instruction	10,351,928	11,156,000	(7.2)
Vocational Education Instruction	610,217	560,798	8.8
Special Education Instruction	3,955,452	3,996,553	(1.0)
Community Education and Services	723,905	760,318	(4.8)
Instructional Support Services	1,654,801	1,311,506	26.2
Pupil Support Services	2,927,206	2,936,561	(0.3)
Sites and Buildings	5,052,667	4,384,171	15.2
Fixed Costs	107,748	143,275	(24.8)
Interest on Long-Term Debt	1,901,504	2,445,426	(22.2)
Depreciation - Unallocated	454,499	454,499	-
Total Expenses	29,941,777	30,354,542	(1.4)
Change in Net Position Before Special Items	(819,538)	1,333,105	
Special Items - Forgiveness of Accrued Rent		12,074,378	(100.0)
Change in Net Position	(819,538)	13,407,483	
Net Position - Beginning	(2,233,200)	(15,640,683)	85.7
Net Position - Ending	$ (3,052,738)	$ (2,233,200)	(36.7) %

The District's total revenues were $29,122,239 for the year ended June 30, 2021. Property taxes and state aid payments accounted for 88 percent of total revenue for the year.

The total cost of all programs and services was $29,941,777. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position $819,538 over last year. For the year ended June 30, 2021, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by $825,602. For the year ended June 30, 2020, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by $1,255,792.

Financial Analysis of the District's Funds

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

Table A-3
Major Funds

	Fund Balance 2021	Fund Balance 2020	Increase (Decrease)	Percentage Increase (Decrease)
Governmental Funds				
General	$ 6,072,191	$ 5,867,456	$ 204,735	3.5 %
Debt Service Fund	28,720,793	20,153,527	8,567,266	42.5

The District will continue to monitor the fund balance levels and make budget reductions as necessary.

The Debt Service Fund Balance increased due to the issuance of GO Refunding Bonds.

General Fund

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

Table A-4 presents a summary of general fund revenue.

Table A-4
General Fund Revenue

	2021	2020	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 2,639,509	$ 2,751,371	$ (111,862)	(4.1) %
Interest Earnings	45,208	98,646	(53,438)	(54.2)
Other	459,218	931,597	(472,379)	(50.7)
State Sources	18,880,579	19,135,150	(254,571)	(1.3)
Federal Sources	1,497,753	902,766	594,987	65.9
Other	9,095	4,872	4,223	86.7
Total General Fund Revenue	$ 23,531,362	$ 23,824,402	$ (293,040)	(1.2) %

Total general fund revenue decreased by $293,040 or 1.2 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Table A-5 presents a summary of general fund expenditures.

Table A-5
General Fund Expenditures

	2021	2020	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 14,802,574	$ 14,666,498	$ 136,076	0.9 %
Employee Benefits	3,704,653	3,569,414	135,239	3.8
Purchased Services	1,548,926	1,698,325	(149,399)	(8.8)
Supplies and Materials	1,396,284	1,659,677	(263,393)	(15.9)
Capital Expenditures	1,388,824	2,559,148	(1,170,324)	(45.7)
Debt Service	402,645	396,942	5,703	1.4
Other Expenditures	269,721	50,069	219,652	438.7
Total General Fund Expenditures	$ 23,513,627	$ 24,600,073	$ (1,086,446)	(4.4) %

General Fund Budgetary Highlights

During the year the District revised its budget twice.

The District’s final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $713,421. The actual results for the year show a surplus of $204,735.

- The District is monitoring and controlling expenses.

Capital Assets and Debt Administration

Capital Assets

Note 3 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2021. Additions totaling $1,153,065 consisted of a bus garage, 2 buses, 3 vans, classroom equipment, protective equipment, flooring and parking lot projects, and camera and lighting projects. Disposals totaling $159,388 consisted of two buses and a passenger van.

Long-Term Debt

At year-end, the District had $72,415,803 of long-term debt. This consisted of bonded indebtedness net of premiums and discounts of $69,754,587, energy service payable of $125,925, capital lease payable of $427,277, accrued interest payable of $2,081,939, and severance payable of $26,075. Note 7 to the financial statements present details and payment provisions of these items.

Factors Bearing on the District’s Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- Results of future labor contract negotiations will affect expenditure levels. Salaries and benefits account for 80% of general fund expenditures.
- The District receives 81% of its revenue from state sources. The District is significantly impacted by the results of the financial health of the State of Minnesota. School Districts have been fortunate the past several years to receive additional increases in the general education funding formula from the State. These increases, however, have not increased at the same rate as inflation. In addition, the State of Minnesota is currently projecting significant budget deficits.
- Future building repairs.
- Increased energy costs.
- Stability of student enrollment.

Contacting the District’s Financial Management

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Offices, Independent School District No. 564, 230 LaBree Avenue South, Thief River Falls, MN 56701.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2021

ASSETS	
Cash and Investments	$ 9,364,149
Investment with Fiscal Agent	27,827,168
Property Taxes Receivable, Net of Allowance	3,042,891
Accounts Receivable	38,750
Due From MN School Districts	6,680
Due From Department of Education	1,737,788
Due From Federal Govt. - DOE	374,281
Prepaid Items	114,436
Inventory	56,110
Capital Assets	
Land, Construction in Process	890,276
Other Capital Assets, Net of Depreciation	57,814,743
TOTAL ASSETS	101,267,272
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan	6,515,710
Other Postemployment Benefit Plan	338,471
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,854,181
LIABILITIES	
Accounts Payable	168,229
Contract Payable	69,767
Due To Other MN School Districts	28,619
Due To Other Governments	4,759
Payroll Deductions	245,261
Unearned Revenue	61,760
Interest Payable	768,171
Vacation Payable	142,992
Long-Term Liabilities Due Within One Year	21,930,280
Long-Term Liabilities	
Bonds, Net Unamortized Premiums (Discounts)	69,754,587
Capital Lease Payable	427,277
Energy Service Payable	125,925
Interest Payable	2,081,939
Severance Payable	26,075
Net Pension Liability	16,798,547
Net Other Postemployment Benefit Liability	1,828,438
Less Amounts Due Within One Year	(21,930,280)
Total Long-Term Liabilities	69,112,508
TOTAL LIABILITIES	92,532,346

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION - CONTINUED
June 30, 2021

DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied - Subs. Years		6,426,797
Cost Sharing Defined Benefit Pension Plan		11,698,541
Other Postemployment Benefit Plan		516,507
TOTAL DEFERRED INFLOWS OF RESOURCES		18,641,845
NET POSITION		
Net Investment in Capital Assets		17,109,398
Restricted for:		
Student Activities		199,894
Scholarships		29,660
Operating Capital		790,044
Long Term Facility Maintenance		181,420
Medical Assistance		42,907
Food Service		363,764
School Readiness		111,752
Community Education		143,925
ECFE		39,293
Community Service		8,053
OPEB Debt Service		45,073
Permanent Fund - Non Expendable		25,000
Permanent Fund - Expendable		7,241
Unrestricted		(22,150,162)
TOTAL NET POSITION	$	(3,052,738)

See Notes to the Financial Statements

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INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 1,650,110	$	$	$ 1,070	$ (1,649,040)
District Support Services	551,740			618	(551,122)
Elementary & Secondary Regular Instruction	10,351,928	139,903	1,680,688	65,897	(8,465,440)
Vocational Education Instruction	610,217	3,000	24,467	8,081	(574,669)
Special Education Instruction	3,955,452		2,617,448		(1,338,004)
Community Education and Services	723,905	330,231	219,793		(173,881)
Instructional Support Services	1,654,801	73,221	676,145	69,620	(835,815)
Pupil Support Services	2,927,206	52,688	1,189,123	243,974	(1,441,421)
Sites and Buildings	5,052,667	7,239	66,552	448,652	(4,530,224)
Fixed Costs	107,748				(107,748)
Interest on Long-Term Debt	1,901,504				(1,901,504)
Depreciation - Unallocated	454,499				(454,499)
TOTAL GOVERNMENTAL ACTIVITIES	$ 29,941,777	$ 606,282	$ 6,474,216	$ 837,912	(22,023,367)
GENERAL REVENUES					
Taxes					
Property Taxes, Levied for General Purposes					2,643,190
Property Taxes, Levied for Community Education and Services					156,075
Property Taxes, Levied for Debt Services					3,074,520
Property Taxes, Levied for OPEB Debt Services					227,150
Unrestricted State Aid					14,860,882
Unrestricted Investment Earnings					(6,195)
Gain on Sale of Capital Asset					7,326
Other General Revenue					240,881
TOTAL GENERAL REVENUES					21,203,829
Change in Net Position					(819,538)
Net Position - Beginning					(2,233,200)
Net Position - Ending					$ (3,052,738)

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2021

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 5,617,786	$ 2,878,345	$ 868,018	$ 9,364,149
Investment with Fiscal Agent		27,827,168		27,827,168
Current Property Taxes Receivable	1,176,934	1,678,354	174,921	3,030,209
Delinquent Property Taxes Receivable	9,668	88,963	16,051	114,682
Accounts Receivable	17,451		21,299	38,750
Due From MN School Districts	6,680			6,680
Due From Department of Education	1,660,209	57,310	20,269	1,737,788
Due From Federal Govt. - DOE	323,611		50,670	374,281
Prepaid Items	114,436			114,436
Inventory			56,110	56,110
TOTAL ASSETS	$ 8,926,775	$ 32,530,140	$ 1,207,338	$ 42,664,253
LIABILITIES				
Accounts Payable	$ 151,805	$	$ 16,424	$ 168,229
Contract Payable	69,767			69,767
Due To Other MN School Districts	28,619			28,619
Due To Other Governments	4,759			4,759
Payroll Deductions	206,685		38,576	245,261
Unearned Revenue	61,760			61,760
TOTAL LIABILITIES	523,395		55,000	578,395
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	9,668	88,963	16,051	114,682
Property Taxes Levied - Subs. Years	2,321,521	3,720,384	384,892	6,426,797
TOTAL DEFERRED INFLOWS OF RESOURCES	2,331,189	3,809,347	400,943	6,541,479
FUND BALANCES				
Fund Balance:				
Nonspendable: Prepaid	114,436			114,436
Nonspendable: Inventory			56,110	56,110
Nonspendable: Scholarships			25,000	25,000
Restricted for Student Activities	199,894			199,894
Restricted for Operating Capital	790,044			790,044
Restricted for Long Term Facility Maintenance	181,420			181,420
Restricted for Food Service			307,654	307,654
Restricted for School Readiness			111,752	111,752
Restricted for Community Education			143,925	143,925
Restricted for ECFE			39,293	39,293
Restricted for Community Service			8,053	8,053
Restricted for Bond Refunding		27,827,168		27,827,168
Restricted for OPEB Debt Service			52,367	52,367
Restricted for Debt Service		893,625		893,625
Restricted for Scholarships	29,660		7,241	36,901
Restricted for Medical Assistance	42,907			42,907
Committed for Severance	26,075			26,075
Assigned for Technology	1,202,857			1,202,857
Assigned for Building Trades	51,244			51,244
Unassigned	3,433,654			3,433,654
TOTAL FUND BALANCES	6,072,191	28,720,793	751,395	35,544,379
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 8,926,775	$ 32,530,140	$ 1,207,338	$ 42,664,253

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2021

Total fund balances - governmental funds	$ 35,544,379
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	92,163,779
Less accumulated depreciation	(33,458,760)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	6,854,181
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(68,959,458)
Capital lease payable	(427,277)
Energy service payable	(125,925)
Unamortized premiums (discounts)	(795,129)
Severance payable	(26,075)
Net Pension Liability	(16,798,547)
Net other postemployment benefit liability	(1,828,438)
Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(12,215,048)
Vacation payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(142,992)
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds.	114,682
An allowance has been set up for taxes receivable in the government-wide financial statements.	(102,000)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(2,850,110)
Net position - governmental activities	$ (3,052,738)

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2021

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 2,639,509	$ 3,071,642	$ 382,733	$ 6,093,884
Other Local & County Revenues	504,426	(56,515)	350,680	798,591
Revenue From State Sources	18,880,579	573,100	218,157	19,671,836
Revenue From Federal Sources	1,497,753		939,986	2,437,739
Sale/Other Conversion of Asset	9,095		51,211	60,306
TOTAL REVENUES	23,531,362	3,588,227	1,942,767	29,062,356
EXPENDITURES				
Current				
Administration	1,621,371			1,621,371
District Support Services	550,654			550,654
Elementary & Secondary				
Regular Instruction	9,422,758			9,422,758
Vocational Education Instruction	595,969			595,969
Special Education Instruction	3,953,120			3,953,120
Community Education and Services			723,083	723,083
Instructional Support Services	1,499,386			1,499,386
Pupil Support Services	1,610,019		1,050,710	2,660,729
Sites and Buildings	2,361,633			2,361,633
Fixed Costs	107,248		500	107,748
Debt Service				
Principal	379,150	7,695,000	210,000	8,284,150
Interest and Other Fees	23,495	1,610,428	20,755	1,654,678
Capital Outlay	1,388,824		822	1,389,646
TOTAL EXPENDITURES	23,513,627	9,305,428	2,005,870	34,824,925
Revenues Over (Under) Expenditures	17,735	(5,717,201)	(63,103)	(5,762,569)
OTHER FINANCING SOURCES (USES)				
Debt Issued	207,674	13,550,000		13,757,674
Premium Relating to Debt Issue		734,467		734,467
Sale of Capital Asset	7,326			7,326
Transfers In			28,000	28,000
Transfers Out	(28,000)			(28,000)
TOTAL OTHER FINANCING SOURCES (USES)	187,000	14,284,467	28,000	14,499,467
Net Change in Fund Balances	204,735	8,567,266	(35,103)	8,736,898
Fund Balances - Beginning	5,867,456	20,153,527	786,498	26,807,481
Fund Balances - Ending	$ 6,072,191	$ 28,720,793	$ 751,395	$ 35,544,379

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

Total net change in fund balances - governmental funds	$ 8,736,898
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.	
Capital outlays	1,138,925
Depreciation expense	(3,406,211)
The donation of capital assets increases net position.	14,140
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	8,284,150
The issuance of long-term debt provides current financial resources to the governmental funds, but the issuance increases long-term liabilities in the statement of net position.	(13,757,674)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Also, governmental funds report the effect of premiums and discounts when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(981,293)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	7,051
Change in net pension liability.	(2,084,323)
Change in deferred outflows and inflows of resources related to net pension liability.	1,258,721
Changes in deferred outflows and inflows of resources related to other postemployment benefit liability.	279,737
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.	
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	
Vacation payable	(26,859)
Other postemployment benefits	(290,513)
Severance payable	7,713
Change in net position - governmental activities	$ (819,538)

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2021

	OPEB Trust Fund
ASSETS	
Investments	$ 1,092,690
TOTAL ASSETS	1,092,690
NET POSITION	
Held in Trust for OPEB	$ 1,092,690

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2021

	OPEB Trust Fund
ADDITIONS	
Investment Earnings:	
Interest	$ 41,637
TOTAL ADDITIONS	41,637
DEDUCTIONS	
Benefits	90,046
TOTAL DEDUCTIONS	90,046
Change in Net Position	(48,409)
Net Position Held in Trust for OPEB - Beginning	1,141,099
Net Position Held in Trust for OPEB - Ending	$ 1,092,690

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 564 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

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

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

C. Basic Financial Statement Presentation

The district-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

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

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

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

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the major funds included in this report are as follows:

Major Governmental Funds

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Nonmajor Governmental Funds

Special Revenue Funds:

Food Service Fund – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service Fund – Accounts for all resources designated for programs other than those for elementary and secondary students.

OPEB Debt Service – Accounts for the accumulation of resources for, and the payment of, OPEB bond principal, interest and related costs.

Permanent Fund – Accounts for all resources designated for specified purposes, which supports the District's programs.

Fiduciary Fund

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

E. Specific Account Information

Cash and Investments – Primary Government – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observed market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2020 which are not payable until 2021, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. The allowance for uncollectible taxes is $102,000.

<u>Accounts Receivable</u> – Accounts receivable is carried at invoice amount less an estimate made for uncollectible accounts. The allowance for uncollectible accounts receivable was zero based on historical performance. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

<u>Inventory</u> – Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

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

<u>Capital Assets</u> – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment. Capital assets not being depreciated include land and construction in progress, if any.

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

<u>Vacation Payable</u> – It is the District's policy to permit employees to accumulate earned but unused vacation. All vacation pay is accrued when incurred in the district-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

<u>Long-Term Obligations</u> – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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

<u>Other Postemployment Benefits (OPEB)</u> – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Retiree Benefits Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of the purchase of one year or less, which are reported at cost. Postemployment healthcare expenditures have been funded through contributions to an irrevocable trust and on a pay as you go basis in the future.

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

PERA has a special funding situation created by direct aid contributions of $16 million made by the State of Minnesota to the fund in 2020.

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.

<u>Deferred Outflows/Inflows of Resources</u> – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/ expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans and other postemployment benefit plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has four types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item, *property taxes levied – subs. years,* is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third item, *Cost Sharing Defined Benefit Pension Plan*, represents actuarial differences within PERA and TRA pension plans. The last item, *Other Postemployment Benefits* represents changes in OPEB.

<u>Net Position</u> – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any

long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

> Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
>
> Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.
>
> Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
>
> Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the power to assign fund balances to the Business Manager.
>
> Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The District's goal is to maintain an unrestricted general fund balance, defined as the total of the committed and unassigned fund balance categories, of not less than 10 percent and not more than 25 percent with the optimal fund balance of 15 percent of the general fund's current annual operating expenditure budget.

F. Use of Estimates

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

NOTE 2 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank. Investments are carried at fair value. The District considers certificates of deposit to be cash.

The pooled cash and investment account is comprised of the following:

	Governmental Activities	Fiduciary Fund	Total
Cash	$ 1,174,983	$	$ 1,174,983
Investments	36,016,334	1,092,690	37,109,024
Total	$ 37,191,317	$ 1,092,690	$ 38,284,007

As of June 30, 2021, the District had the following investments:

		Investment Maturities (in Years)	
Investments	Fair Value	<1	1-5
US Treasury State & Local	$ 45,018	$ 45,018	$
US Treasury State & Local	9,425,895	9,425,895	
US Treasury State & Local	9,393,619	9,393,619	
State and Local Bonds	8,707,618		8,707,618
Minnesota School District Liquid Asset Fund	81,185	81,185	
MnTrust	9,200,670	8,452,470	748,200
US Bank CD's	255,019	255,019	
Total Investments by Fair Value Level	$ 37,109,024	$ 27,653,206	$ 9,455,818

Investments	Fair Value Level 1	Fair Value Level 2	Total
US Treasury State & Local	$ 45,018	$	$ 45,018
US Treasury State & Local	9,425,895		9,425,895
US Treasury State & Local	9,393,619		9,393,619
State and Local Bonds		8,707,618	8,707,618
Total Investments (By Fair Value)	18,864,532	8,707,618	27,572,150
Minnesota School District Liquid Asset Fund	81,185		81,185
MnTrust	9,200,670		9,200,670
US Bank CD's	255,019		255,019
Total Investments by Fair Value Level	$ 28,401,406	$ 8,707,618	$ 37,109,024

The Minnesota School District Liquid Asset Fund and the MnTrust are common law trusts organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of School District monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

The Minnesota School District Liquid Asset Fund and the MnTrust are an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position is the same as the value of the pool shares.

During 2021, the District noted a significant decrease in their interest income. This was mainly due to the decrease in fair market value over their investment accounts.

Interest Income	$	92,666
Change in Fair Market Value		(98,861)
Total Interest Income	$	(6,195)

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

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member 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.
(g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAAm by Standard & Poor’s, while the MnTrust is rated Aaa by Moody’s Investors Services.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2021, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund and the MnTrust are not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 780,844	$	$	$ 780,844
Construction in Progress	92,245	109,432	92,245	109,432
Total Capital Assets, Not Being Depreciated	873,089	109,432	92,245	890,276
Capital Assets, Being Depreciated:				
Land Improvements	1,658,978	722,835		2,381,813
Buildings	82,175,418			82,175,418
Equipment	6,462,617	413,043	159,388	6,716,272
Total Capital Assets, Being Depreciated	90,297,013	1,135,878	159,388	91,273,503
Less Accumulated Depreciation For:				
Land Improvements	909,372	69,809		979,181
Buildings	25,586,284	2,773,683		28,359,967
Equipment	3,716,281	562,719	159,388	4,119,612
Total Accumulated Depreciation	30,211,937	3,406,211	159,388	33,458,760
Total Capital Assets, Being Depreciated, Net	60,085,076	(2,270,333)		57,814,743
Governmental Activities Capital Assets, Net	$ 60,958,165	$ (2,160,901)	$ 92,245	$ 58,705,019

In the statement of activities, depreciation expense was charged to the following governmental functions:

Elementary & Secondary Regular Instruction	$ 39,832
Vocational Education Instruction	5,120
Special Education Instruction	2,332
Instructional Support	647
Pupil Support Services	269,207
Sites and Buildings	2,634,574
	2,951,712
Unallocated	454,499
Total Depreciation Expense	$ 3,406,211

NOTE 4 DEFINED BENEFIT PENSION PLANS- STATEWIDE

Substantially, all employees of the District 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. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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

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

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.

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 a Coordinated Plan member is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2021, were $345,160. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2021, the District reported a liability of $3,921,029 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $120,881. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0654% at the end of the measurement period and 0.0645% for the beginning of the period.

District's proportionate share of net pension liability	$	3,921,029
State of Minnesota's proportionate share of the net pension liability associated with the District		120,881
Total	$	4,041,910

For the year ended June 30, 2021, the District recognized pension expense of $79,076 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $10,520 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's pension expense for the annual $16 million contribution.

At June 30, 2021, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 35,353	$ 14,833
Difference between projected and actual investment earnings	45,804	
Changes in actuarial assumptions		147,056
Changes in proportion	43,001	161,163
Contributions paid to PERA subsequent to the measurement date	345,160	
Total	$ 469,318	$ 323,052

$345,160 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2022	$	(322,222)
2023		(60,210)
2024		88,801
2025		94,737

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

Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on Pub-2010 General Employee Mortality table 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% per year.

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

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
International Stocks	17.50%	5.30%
Cash	2.00%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2020 was 7.50%. 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.

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

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 6,284,049	$ 3,921,029	$ 1,971,727

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit 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.

B. TEACHERS RETIREMENT ASSOCIATION

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those 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.

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

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

Tier I Benefits:

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 up 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 up 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:

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

or

Tier II Benefits:

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

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

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

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

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

	June 30, 2019		June 30, 2020		June 30, 2021	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.71%	11.00%	11.92%	11.00%	12.13%
Coordinated	7.50%	7.71%	7.50%	7.92%	7.50%	8.13%

The following is a reconciliation of employer contributions in TRA's fiscal year 2020 ACFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations:

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

Amounts reported in the allocation schedules may not precisely agree with 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.

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation Date	July 1, 2020
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:	
Investment Rate of Return	7.5%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 to 8.85% before July 1, 2018 and 3.25% to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality 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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Geometric Mean)
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	2.00%	0.00%

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is 5 years as required by GASB 68.

<u>Changes in actuarial assumptions since the 2018 valuation:</u>

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

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

Net Pension Liability - On June 30, 2021, the District reported a liability of $12,877,518 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1743% at the end of the measurement period and 0.1749% for the beginning of the year.

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

District's proportionate share of net pension liability	$	12,877,518
State's proportionate share of the net pension liability associated with the District	$	1,079,134

For the year ended June 30, 2021, the District recognized pension expense of $1,919,075. It also recognized $98,856 as an increase to pension expense for the support provided by direct aid.

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	258,246	$	197,414
Net difference between projected and actual earnings on plan inv.		188,339		
Changes in actuarial assumptions		4,750,085		10,898,110
Changes in proportion				279,965
Contributions paid to TRA subsequent to the measurement date		849,722		
Total	$	6,046,392	$	11,375,489

$849,722 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2022	$ 239,301
2023	(4,006,807)
2024	(2,727,995)
2025	273,244
2026	43,438

Pension Liability Sensitivity - The following presents the net pension liability 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 higher (8.50 percent) than the current rate.

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 19,715,343	$ 12,877,518	$ 7,243,495

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

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.

The District recognized total pension expense of $1,998,151 for all of the pension plans in which it participates.

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

The District may contribute the actuarially determined contribution (ADC), an amount actuarially determined in accordance with parameters of GASB Statement 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The pay as you go cost for OPEB benefits is $224,735. The annual employer contributions were $121,602 and $103,133 was the implicit subsidy. These costs are recognized as an expense when claims or premiums are paid. The General Fund paid for $134,689 of 20-21 cost and transferred $90,046 from the OPEB trust fund.

Employees Covered by Benefit Term – At June 30, 2021, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	19
Active plan members	292
	311

Net OPEB Liability – The District's net OPEB liability of $1,828,438 was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2020.

Actuarial Assumptions – The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	changed from a flat 3.0 percent per year to rates which vary by group
Investment rate	2.4 percent (net of investment expenses)
Healthcare cost trend rates	6.5 percent in 2020 grading to 5 percent over 6 years and then 4 percent over 48 years

Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Cash	5%	1.0%
Fixed Income	95%	2.50%
Total	100%	2.40%

Discount Rate – The discount rate used to measure the total OPEB liability was 2.1 percent. The projection of cash flows was used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 6/30/2020	$ 2,679,024	$ 1,141,099	$ 1,537,925
Changes for the year:			
Service Cost	192,077		192,077
Interest Cost	66,226		66,226
Assumption Changes	(100,437)		(100,437)
Employer Contributions		134,689	(134,689)
Projected Investment Return		27,386	(27,386)
Differences between Expected and Actual Experience	308,973	14,501	294,472
Benefit Payments	(224,735)	(224,735)	
Administrative Expenses		(250)	250
Net changes	242,104	(48,409)	290,513
Balances at 6/30/2021	$ 2,921,128	$ 1,092,690	$ 1,828,438

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.4 percent) or one percentage point higher (3.4 percent) than the current rate:

	District Total OPEB Liability	
1% Decrease (1.1%)	Current (2.1%)	1% Increase (3.1%)
$ 1,973,982	$ 1,828,438	$ 1,682,010

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.2 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

	District Healthcare Cost Trend Rates	
(5.5% decreasing to 4.0% then 3.0%)	(6.5% decreasing to 5.0% then 4.0%)	(7.5% decreasing to 6.0% then 5.0%)
$ 1,556,579	$ 1,828,438	$ 2,143,976

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2021, the District recognized OPEB expense of $263,023. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between Expected and Actual Experience	$	257,478	$	410,272
Investment Losses/Gains		6,142		
Changes in Assumptions		74,851		106,235
Total	$	338,471	$	516,507

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

Year Ending June 30		OPEB Expense Amount
2022	$	(87,013)
2023		(88,975)
2024		(83,592)
2025		46,786
2026		34,758

NOTE 6 CAPITAL LEASE PAYABLE

The District has entered into lease agreements as lessee for financing 15 buses valued at $1,488,340. The estimated life for a bus is 8 years. This year, $173,062 was included in depreciation expense. These lease agreements qualify as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021, are as follows:

Year Ending June 30		Amount
2022	$	171,163
2023		150,316
2024		85,595
2025		43,415
Total Minimum Lease Payments		450,489
Less: Amount Representing Interest		(23,212)
Present Value of Minimum Lease Payments	$	427,277

NOTE 7 LONG-TERM LIABILITIES

The long-term debt obligations outstanding at year-end and changes in long-term debt are summarized as follows:

Summary of Long-Term Debt

Primary Government:	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
GO Cap Appr Bonds 2013A	$ 6,089,458	$	$	$ 6,089,458	$
GO Building Bond	23,825,000		5,210,000	18,615,000	18,615,000
GO Refunding Bonds	33,400,000	13,550,000	2,695,000	44,255,000	2,865,000
Unamortized Discount	(159,464)		(13,370)	(146,094)	(13,370)
Unamortized Premium	312,116	734,467	105,360	941,223	178,587
Total Bonds	63,467,110	14,284,467	7,996,990	69,754,587	21,645,217
Energy Service Payable	288,277		162,352	125,925	125,925
Capital Lease Payable	436,401	207,674	216,798	427,277	159,138
Accrued Interest Payable	1,783,858	298,081		2,081,939	
Severance Payable	33,788	1,371	9,084	26,075	
Total Long-Term Liabilities	$ 66,009,434	$ 14,791,593	$ 8,385,224	$ 72,415,803	$ 21,930,280

The District's interest expense for the year ended June 30, 2021, was $1,700,707.

Accrued interest payable is generally liquidated by the debt service fund and severance payable is generally liquidated by the general fund.

A. General Obligation Bonds

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2021
Capital Appreciation Bond	2013	3.5-4.1%	2022/23	$ 6,089,458	$	$ 6,089,458
Building Bond Series A	2012	3.3-4.0%	2022	18,615,000		18,615,000
Building Bond Series C	2012	3.0%	2021	7,775,000	5,210,000	
GO Crossover Refunding	2016	2.0-2.5%	2023/33	9,965,000		9,965,000
GO Crossover Refunding	2020	2.08-3.00%	2022/30	9,665,000		9,665,000
GO Refunding	2020	1.4-2.00%	2022/25	12,675,000	2,485,000	10,190,000
GO Refunding	2021	0.86-1.57%	2022/32	9,110,000		9,110,000
GO Refunding	2021	3.0-4.0%	2022/26	4,440,000		4,440,000
GO OPEB Refunding	2016	1.8-2.15%	2022/25	1,300,000	210,000	885,000
						$ 68,959,458

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2022	$ 21,480,000	$ 1,690,609
2023	9,454,458	3,532,064
2024	3,465,000	831,894
2025	3,595,000	773,825
2026	3,795,000	679,131
2027-2031	21,345,000	1,946,459
2032-2033	5,825,000	219,250
	$ 68,959,458	$ 9,673,232

B. Energy Service Payable

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2021
Energy Service Loan	2006	4.20%	2022	$ 2,036,359	$ 162,352	$ 125,925

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2022	$ 125,925	$ 1,901

C. Crossover Refunding

During 2017, the District issued $9,965,000 in general obligation refunding bonds with interest rates ranging between 3.3 to 4.0%. The District issued the bonds to refund the following outstanding general obligations:

General Obligation	Refunding Date	Interest Rate	Amount
GO School Building Bonds, Series 2012A	2/1/2022	3.3-4.0%	$ 9,270,000

The District will realize a savings of $733,955, with a present value of $576,094.

During 2020, the District issued $9,665,000 in general obligation refunding bonds with interest rates ranging between 2.08 to 3.0%. The District issued the bonds to refund the following outstanding general obligations:

General Obligation	Refunding Date	Interest Rate	Amount
GO School Building Bonds, Series 2012A	2/1/2022	2.05-3.0%	$ 9,345,000

The District will realize a savings of $475,551, with a present value of $385,576.

During 2021, the District issued $9,110,000 in general obligation refunding bonds with interest rates ranging between 0.86 to 1.57%. The District issued the bonds to refund the following outstanding general obligations:

General Obligation	Refunding Date	Interest Rate	Amount
GO Cap Appr Bonds 2013A	2/1/2023	3.5-4.1%	$ 6,089,458

The District will realize a savings of $1,134,706, with a present value of $983,691.

D. Current Refunding

The District issued $4,440,000 of general obligation bonds for a current refunding of $5,100,000 general obligation building bonds. The refunding was undertaken to reduce total future debt service payments. The transaction resulted in a net present value benefit of $487,598 and a net present value cash flow savings of $476,245.

NOTE 8 INTERFUND TRANSFERS

Transfer In	Transfer Out	Amount
Nonmajor Governmental	General	$28,000

The purpose of the transfer is to cover current year operating costs in the community service fund.

NOTE 9 OPERATING LEASES

The District has an agreement with the City of Thief River Falls whereby the District agrees to lease the City's facilities. Payments under this lease agreement made by the District during the year ended June 30, 2021, totaled $131,573. The lease is renewed annually.

NOTE 10 SEVERANCE PAY

The District has several severance pay plans for various groups of employees. The plans call for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2021, the estimated liability under these plans was $26,075.

NOTE 11 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2021.

NOTE 12 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $300,000. The pool and its members purchase reinsurance, currently with a $300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 13 COMMITTED CONTRACTS

As of June 30, 2021, the District had commitments in the General Fund of $497,700 for construction.

NOTE 14 NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 provides additional guidance for determining whether a primary government is financially accountable for a potential component unit.* This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities,* be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans,* or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

Management has not yet determined the effect these Statements will have on the District's financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2021

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
REVENUES				
Local Property Tax Levies	$ 2,612,933	$ 2,602,943	$ 2,639,509	$ 36,566
Other Local & County Revenues	684,566	651,866	504,426	(147,440)
Revenue From State Sources	19,245,992	19,166,380	18,880,579	(285,801)
Revenue From Federal Sources	936,786	1,629,123	1,497,753	(131,370)
Sale/Other Conversion of Asset	3,000	3,000	9,095	6,095
TOTAL REVENUES	23,483,277	24,053,312	23,531,362	(521,950)
EXPENDITURES				
Current				
Administration	1,664,969	1,641,189	1,621,371	(19,818)
District Support Services	619,615	581,085	550,654	(30,431)
Elementary & Secondary				
Regular Instruction	9,988,180	10,157,178	9,422,758	(734,420)
Vocational Education Instruction	603,777	629,191	595,969	(33,222)
Special Education Instruction	4,092,594	3,970,778	3,953,120	(17,658)
Instructional Support Services	1,055,804	1,390,592	1,499,386	108,794
Pupil Support Services	1,689,509	1,738,196	1,610,019	(128,177)
Sites and Buildings	2,365,415	2,519,823	2,361,633	(158,190)
Fixed Costs	225,225	237,800	107,248	(130,552)
Debt Service				
Principal	378,805	379,150	379,150	
Interest	23,931	23,495	23,495	
Capital Outlay	1,213,522	1,470,256	1,388,824	(81,432)
TOTAL EXPENDITURES	23,921,346	24,738,733	23,513,627	(1,225,106)
Revenues Over (Under) Expenditures	(438,069)	(685,421)	17,735	703,156
OTHER FINANCING SOURCES (USES)				
Debt Issued			207,674	207,674
Sale of Capital Asset			7,326	7,326
Transfer Out	(28,000)	(28,000)	(28,000)	
TOTAL OTHER FINANCING SOURCES (USES)	(28,000)	(28,000)	187,000	215,000
Net Change in Fund Balances	(466,069)	(713,421)	204,735	918,156
Fund Balances - Beginning	5,867,456	5,867,456	5,867,456	
Fund Balances - Ending	$ 5,401,387	$ 5,154,035	$ 6,072,191	$ 918,156

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS

	2017	2018	2019	2020	2021
Total OPEB Liability					
Service Cost	$ 197,265	$ 190,780	$ 136,417	$ 157,177	$ 192,077
Interest	94,723	93,635	104,547	80,289	66,226
Assumption Changes		(67,610)	30,284	89,562	(100,437)
Plan Changes			34,354		
Differences Between Expected and Actual Experience			(820,545)		308,973
Benefit Payments	(374,435)	(273,548)	(205,108)	(160,377)	(224,735)
Net Change in Total OPEB Liability	(82,447)	(56,743)	(720,051)	166,651	242,104
Total OPEB Liability - Beginning	3,371,614	3,289,167	3,232,424	2,512,373	2,679,024
Total OPEB Liability Ending (a)	$ 3,289,167	$ 3,232,424	$ 2,512,373	$ 2,679,024	$ 2,921,128
Plan Fiduciary Net Position					
Contributions - Employer	$ 205,581	$ 160,062	$ 133,943	$ 84,052	$ 134,689
Projected Investment Return	13,218	17,739	37,762	28,696	27,386
Differences Between Expected and Actual Experience		(9,841)	(29,409)	(6,685)	14,501
Benefit Payments	(374,435)	(273,548)	(205,108)	(160,377)	(224,735)
Administrative Expenses	(250)	(250)	(250)	(250)	(250)
Net Change in Plan Fiduciary Net Position	(155,886)	(105,838)	(63,062)	(54,564)	(48,409)
Plan Fiduciary Net Position - Beginning	1,520,449	1,364,563	1,258,725	1,195,663	1,141,099
Plan Fiduciary Net Position - Ending (b)	$ 1,364,563	$ 1,258,725	$ 1,195,663	$ 1,141,099	$ 1,092,690
District's Net OPEB Liability - Ending (a) - (b)	$ 1,924,604	$ 1,973,699	$ 1,316,710	$ 1,537,925	$ 1,828,438
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	41.49%	38.94%	47.59%	42.59%	37.41%
Covered Payroll	$ 13,281,098	$ 13,679,531	$ 13,720,751	$ 14,132,373	$ 14,360,278
District's Net OPEB Liability as a Percentage of Covered Payroll	14.49%	14.43%	9.60%	10.88%	12.73%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2017. Information from prior years is not available.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST 10 YEARS

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
PERA					
2015	$ 299,328	$ 299,328	$	$ 4,038,246	7.41 %
2016	322,973	322,973		4,301,849	7.51
2017	341,032	341,032		4,539,716	7.51
2018	346,292	346,292		4,616,820	7.50
2019	341,749	341,749		4,556,651	7.50
2020	350,599	350,599		4,674,646	7.50
2021	345,160	345,160		4,582,888	7.53
TRA					
2015	$ 686,991	$ 686,991	$	$ 9,159,858	7.50 %
2016	699,319	699,319		9,324,269	7.50
2017	717,255	717,255		9,563,356	7.50
2018	726,547	726,547		9,685,923	7.50
2019	763,227	763,227		9,898,648	7.71
2020	801,117	801,117		10,115,011	7.92
2021	849,722	849,722		10,450,494	8.13

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.
The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years are not available.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA							
2014	0.0705 %	$ 3,311,737	$	$ 3,311,737	$ 3,738,454	88.59 %	78.70 %
2015	0.0687	3,560,391		3,560,391	4,038,246	88.17	78.19
2016	0.0692	5,618,697	73,378	5,692,075	4,301,849	130.61	68.90
2017	0.0705	4,500,673	56,557	4,557,230	4,539,716	99.14	75.90
2018	0.0688	3,816,742	125,272	3,942,014	4,616,820	82.67	79.53
2019	0.0645	3,566,061	110,829	3,676,890	4,556,651	78.26	80.23
2020	0.0654	3,921,029	120,881	4,041,910	4,674,646	83.88	79.06
TRA							
2014	0.1959 %	$ 9,026,931	$ 635,089	$ 9,662,020	$ 8,942,505	100.94 %	81.50 %
2015	0.1810	11,196,640	1,373,365	12,570,005	9,159,858	122.24	76.80
2016	0.1792	42,743,476	4,290,612	47,034,088	9,324,269	458.41	44.80
2017	0.1776	35,452,182	3,427,611	38,879,793	9,563,356	370.71	51.57
2018	0.1753	11,010,590	1,034,630	12,045,220	9,685,923	113.68	78.07
2019	0.1749	11,148,163	986,692	12,134,855	9,898,648	112.62	78.21
2020	0.1743	12,877,518	1,079,134	13,956,652	10,115,011	127.31	75.48

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

NOTE 1 BUDGETARY DATA

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLANS

PERA

2020 Changes
Changes in Actuarial Assumptions: The price of inflation assumption was decreases from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rated of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees were changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

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

2019 Changes
Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2017 to MP-2018.

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

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

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

2017 Changes
Changes in Actuarial Assumptions: The Combined Service Annuity (CSA) loads were changed from 0.8 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.

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

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

2015 Changes
Changes in Plan Provisions: On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase was changed form 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

TRA

Changes in Actuarial Assumptions Since the 2016 Valuation:

- The Cost of Living Adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.

- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

<u>Changes in actuarial assumptions since the 2017 valuation:</u>

- 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 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 payment 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.

<u>Changes in actuarial assumptions since the 2018 valuation:</u>

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

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Plan Changes: None

Assumption Changes:

- 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-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 2.40% to 2.10%.

Method Changes: None

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2021

	Special Revenue Funds		Debt Service		Total
	Food Service Fund	Community Service Fund	OPEB Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	$ 280,512	$ 381,898	$ 173,367	$ 32,241	$ 868,018
Current Property Taxes Receivable		62,815	112,106		174,921
Delinquent Property Taxes Receivable		7,460	8,591		16,051
Accounts Receivable	1,662	19,637			21,299
Due From Department of Education		19,633	636		20,269
Due From Federal Govt. - DOE	50,670				50,670
Inventory	56,110				56,110
TOTAL ASSETS	$ 388,954	$ 491,443	$ 294,700	$ 32,241	$ 1,207,338
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	$ 14,179	$ 2,245	$	$	$ 16,424
Payroll Deductions	11,011	27,565			38,576
TOTAL LIABILITIES	25,190	29,810			55,000
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes		7,460	8,591		16,051
Property Taxes Levied - Subs. Years		151,150	233,742		384,892
TOTAL DEFERRED INFLOWS OF RESOURCES		158,610	242,333		400,943
FUND BALANCES					
Fund Balance:					
Nonspendable: Inventory	56,110				56,110
Nonspendable: Scholarships				25,000	25,000
Restricted for Food Service	307,654				307,654
Restricted for School Readiness		111,752			111,752
Restricted for Community Education		143,925			143,925
Restricted for ECFE		39,293			39,293
Restricted for Community Service		8,053			8,053
Restricted for OPEB Debt Service			52,367		52,367
Restricted for Scholarships				7,241	7,241
TOTAL FUND BALANCES	363,764	303,023	52,367	32,241	751,395
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 388,954	$ 491,443	$ 294,700	$ 32,241	$ 1,207,338

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2021

	Special Revenue Funds		Debt Service		
	Food Service Fund	Community Service Fund	OPEB Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
REVENUES					
Local Property Tax Levies	$	$ 155,942	$ 226,791	$	$ 382,733
Other Local & County Revenues	5,110	345,296		274	350,680
Revenue From State Sources	18,804	193,007	6,346		218,157
Revenue From Federal Sources	921,903	18,083			939,986
Sale/Other Conversion of Asset	49,645	1,566			51,211
TOTAL REVENUES	995,462	713,894	233,137	274	1,942,767
EXPENDITURES					
Current					
Community Education and Services		723,083			723,083
Pupil Support Services	1,050,710				1,050,710
Fixed Costs				500	500
Debt Service					
Principal			210,000		210,000
Interest and Other Fees			20,755		20,755
Capital Outlay		822			822
TOTAL EXPENDITURES	1,050,710	723,905	230,755	500	2,005,870
Revenues Over (Under) Expenditures	(55,248)	(10,011)	2,382	(226)	(63,103)
OTHER FINANCING SOURCES					
Transfer In		28,000			28,000
TOTAL OTHER FINANCING SOURCES		28,000			28,000
Net Change in Fund Balances	(55,248)	17,989	2,382	(226)	(35,103)
Fund Balances - Beginning	419,012	285,034	49,985	32,467	786,498
Fund Balances - Ending	$ 363,764	$ 303,023	$ 52,367	$ 32,241	$ 751,395

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
For the Year Ended June 30, 2021

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Sale of Capital Asset	Debt Issued, Net	UFARS Balance End of Year
Governmental Funds							
General Fund							
Nonspendable	$ 155,676	$	$	$ (41,240)	$	$	$ 114,436
Restricted for:							
Student Activity	212,407	113,432	125,945				199,894
Scholarships	24,140	5,715	195				29,660
Achievement & Integration	17,576	138,555	147,320	(8,811)			
Long Term Facility Maintenance	156,684	812,545	787,809				181,420
Operating Capital	789,024	584,888	791,542			207,674	790,044
Medical Assistance	44,479			(1,572)			42,907
Committed: Severance	33,789			(7,714)			26,075
Assigned for Technology	906,976			295,881			1,202,857
Assigned for Building Trades	48,244			3,000			51,244
Unassigned	3,478,461	21,876,227	21,660,816	(267,544)	7,326		3,433,654
Food Service Fund							
Nonspendable	90,579			(34,469)			56,110
Restricted: Food Service	328,433	995,462	1,050,710	34,469			307,654
Community Service Fund							
Restricted for:							
Community Education	145,777	326,316	351,168	23,000			143,925
ECFE	38,582	131,788	131,077				39,293
School Readiness	87,911	219,184	200,343	5,000			111,752
Community Service	12,764	36,606	41,317				8,053
Debt Service Fund							
Restricted for:							
Bond Refunding	19,339,514					8,487,654	27,827,168
Debt Service	814,013	3,588,227	9,305,428			5,796,813	893,625
OPEB Debt Service Fund							
Restricted for:							
OPEB Debt Service	49,985	233,137	230,755				52,367
Permanent Fund							
Nonspendable	25,000						25,000
Restricted: Scholarships	7,467	274	500				7,241
Fiduciary Fund							
OPEB Trust Fund							
Held in Trust for OPEB	1,141,099	41,637	90,046				1,092,690

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 564
Thief River Falls, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 564 as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2021.

Legal Compliance

In connection with our audit, nothing of came to our attention that caused us to believe that the District failed to comply with the provisions of contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards 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.

Purpose of the Report

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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 12, 2021

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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*

To the Board of Education
Independent School District No. 564
Thief River Falls, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

The District's Response to Findings

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

Purpose of this Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 12, 2021

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

To the Board of Education
Independent School District No. 564
Thief River Falls, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 564's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Independent School District No. 564 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify a certain deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 12, 2021

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Amount
U.S. Department of Education		
Direct Programs:		
P.L.100-297 Indian Education	84.060	$ 26,369
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	48,466
Title I	84.010	264,406
Title IV	84.424	17,747
Special Education - Infants and Toddlers	84.181	8,119
COVID-19 Elementary and Secondary Education Relief Fund	84.425D	142,011
COVID-19 Governor's Emergency Education Relief Fund	84.425C	35,670
Total CFDA 84.425		177,681
Special Education Cluster:		
IDEA Part B 611	84.027	464,274
Preschool Incentives	84.173	13,314
Total Special Education Cluster		477,588
Passed-Through Pine to Prairie Cooperative:		
Carl Perkins	84.048A	6,295
Total Indirect		1,000,302
Total U.S. Department of Education		1,026,671
U.S. Department of Treasury		
Passed-Through Minnesota Department of Education:		
COVID-19 Coronavirus Relief Fund	21.019	532,062
COVID-19 American Rescue Plan	21.027	4,270
Total Indirect		536,332
Total U.S. Department of Treasury		536,332
U.S. Department of Agriculture		
Passed-Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodity Distribution (Nonmonetary Assistance)	10.555	67,153
COVID-19 Summer Food Program for Children	10.559	807,583
Total Child Nutrition Cluster		874,736
Total U.S. Department of Agriculture		874,736
TOTAL FEDERAL AWARDS		$ 2,437,739

See Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 564 under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 564, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 564.

NOTE 4 COMMODITY DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE 5 PASS-THROUGH ENTITIES

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

NOTE 6 SUBRECIPIENTS

During 2021, the District did not pass any federal money to subrecipients.

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(s) identified?	_x_ yes ___ none reported
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(s) identified?	_x_ yes ___ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_x_ yes ___ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
21.019	COVID-19 Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	_x_ yes ___ no

Section II-Financial Statement Findings

2021-001 FINDING

See detail in Section III

Section III- Federal Award Findings and Questioned Costs

2021-001 FINDING

Federal Program
Coronavirus Relief Fund (CFDA 21.019)
Activities Allowed/Cost Principles

Criteria
The District's purchasing policy requires pre-approval for all purchases, except for buildings and grounds who have a $1,000 threshold before requiring pre-approval.

Condition
From a population of 270, we randomly tested 43 transactions to ensure that the District received pre-approval before a transaction was made. We noted 2 transactions which did not get pre-approval before the transaction was executed.

Questioned Costs
None

Context
The District had 2 transactions that did not receive the proper approval before being executed.

Cause
Management oversight

Effect
The District could make a purchase with federal dollars that is not an allowable expense.

Repeat Finding
No

Recommendation
The District should follow their purchasing policy to ensure that all transactions receive prior approval before a purchase is made.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will implement immediately.

SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2021

There are no prior year findings which are required to be reported under this section.

Independent School District #564
230 LaBree Avenue South
Thief River Falls, MN 56701
Donita Stepan, Superintendent
(218) 681-8711 ext. 5226

2021-001 FINDING

Contact Person – Director of Finance and Operations

Corrective Action Plan – The District should follow their purchasing policy to ensure that all transactions receive prior approval before a purchase is made.

Completion Date – Immediately

PHONE (218) 681-8711 • **FAX** (218) 681-3252 • **WEBSITE** http://www.trf.k12.mn.us

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2021

District Name: INDEPENDENT SCHOOL DISTRICT NO. 564 **District Number:** 564

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	23,531,362	23,531,362	
Total Expenditures	23,513,627	23,513,625	2
Non Spendable			
460 Non Spendable Fund Balance	114,436	114,436	
Restricted/Reserved:			
401 Student Activities	199,894	199,894	
402 Scholarships	29,660	29,660	
403 Staff Development			
407 Capital Projects Levy			
408 Cooperative Revenue			
413 Building Projects Funded by COP			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
424 Operating Capital	790,044	790,044	
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development			
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program			
438 Gifted & Talented			
440 Teacher Development and Eval.			
441 Basic Skills Programs			
448 Achievement & Integration			
449 Safe Schools Levy			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retiremt Levy			
467 Long Term Facilities Maintenance	181,420	181,419	1
472 Medical Assistance	42,907	42,908	(1)
Restricted			
464 Restricted Fund Balance			
Committed			
418 Committed for Separation	26,075	26,075	
461 Committed			
Assigned			
462 Assigned Fund Balance	1,254,101	1,254,101	
Unassigned:			
422 Unassigned Fund Balance	3,433,654	3,433,660	(6)
Reconciliation of General	53,117,180	53,117,184	(4)
02 FOOD SERVICE			
Total Revenue	995,462	995,462	
Total Expenditures	1,050,710	1,050,710	
Non Spendable			
460 Non Spendable Fund Balance	56,110	56,110	
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	307,654	307,655	(1)
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Food Service	2,409,936	2,409,937	(1)
04 COMMUNITY SERVICE			
Total Revenue	713,894	713,894	
Total Expenditures	723,905	723,905	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	143,925	143,926	(1)
432 E.C.F.E.	39,293	39,293	
440 Teacher Development and Eval.			
444 School Readiness	111,752	111,753	(1)
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	8,053	8,052	1
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	1,740,822	1,740,823	(1)

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
409 Alternative Facility Program			
413 Projects Funded By COP			
Restricted			
464 Restricted Fund Balance			
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction			
07 DEBT SERVICE			
Total Revenue	3,588,227	3,588,226	1
Total Expenditures	9,305,428	9,305,428	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings	27,827,168	27,827,168	
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	893,625	893,624	1
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Debt Service	41,614,448	41,614,446	2
08 TRUST			
Total Revenue	274	274	
Total Expenditures	500	500	
Unassigned:			
402 Scholarships	32,241	32,241	
422 Unassigned Fund Balance			
Reconciliation of Trust	33,015	33,015	
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue	41,637	41,637	
Total Expenditures	90,046	90,046	
Unassigned:			
422 Unassigned Fund Balance	1,092,690	1,092,690	
Reconciliation of OPEB Irrevocable Trust	1,224,373	1,224,373	
47 OPEB DEBT SERVICE FUND			
Total Revenue	233,137	233,137	
Total Expenditures	230,755	230,755	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance	52,367	52,367	
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service	516,259	516,259	