

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA**

*AUDITED FINANCIAL STATEMENTS*

FOR THE YEAR ENDED JUNE 30, 2024

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THIEF RIVER FALLS, MINNESOTA  
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THIEF RIVER FALLS, MINNESOTA  
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**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**ROSTER OF SCHOOL OFFICIALS**  
**June 30, 2024**

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Ryan Walseth	Chairman
Misty Hempel	Vice-Chairman
Chris Melbye	Clerk
Michelle Westerman	Treasurer
Mike Spears	Director
Wayne Nomeland	Director
John Syvertson	Director
Tanya Monson-Ek	District Business Manager
Chris Mills	Superintendent

## INDEPENDENT AUDITOR'S REPORT

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

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

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining information of the Independent School District No. 564, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 564, as of June 30, 2024, 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.

#### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

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

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

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

## ***Required Supplementary Information***

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

## **Supplementary Information**

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

## **Other Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2024 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 & ASSOCIATES, P.C.**  
Thief River Falls, Minnesota

November 18, 2024

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2024**

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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, 2024. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **Financial Highlights**

For the year ending June 30, 2024, the District's unassigned fund balance increased from \$2,084,561 to \$2,554,408 or an increase of \$469,847.

### **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.



**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
For the Year Ended June 30, 2024**

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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.

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
For the Year Ended June 30, 2024**

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**Financial Analysis of the District as a Whole**

Net Position

The District's combined net position was \$6,422,931 on June 30, 2024 (see details in Table A-1). This was an increase of 142.2 percent from the prior year.

**Table A-1  
Statement of Net Position**

	<u>2024</u>	<u>2023</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 16,716,483	\$ 15,191,377	10.0 %
Capital Assets	<u>51,972,336</u>	<u>54,634,208</u>	(4.9)
Total Assets	<u>68,688,819</u>	<u>69,825,585</u>	(1.6)
Deferred Outflows of Resources	<u>4,354,994</u>	<u>5,122,148</u>	(15.0)
Long-term Liabilities	50,254,928	54,297,309	(7.4)
Other Liabilities	<u>6,008,764</u>	<u>5,881,606</u>	2.2
Total Liabilities	<u>56,263,692</u>	<u>60,178,915</u>	(6.5)
Deferred Inflows of Resources	<u>10,357,190</u>	<u>12,116,839</u>	(14.5)
Net Position			
Net Investment in Capital Assets	16,483,903	16,777,680	(1.8)
Restricted	2,931,689	1,873,881	56.5
Unrestricted	<u>(12,992,661)</u>	<u>(15,999,582)</u>	18.8
Total Net Position	<u>\$ 6,422,931</u>	<u>\$ 2,651,979</u>	142.2 %

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
For the Year Ended June 30, 2024**

Change in Net Position

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

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

	<u>2024</u>	<u>2023</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 1,097,276	\$ 1,245,260	(11.9) %
Operating Grants and Contributions	8,597,504	7,001,609	22.8
Capital Grants and Contributions	650,323	688,840	(5.6)
General Revenues			
Property Taxes	6,148,687	6,120,464	0.5
Unrestricted State Aid	15,107,893	14,919,672	1.3
Other Sources	845,059	1,080,152	(21.8)
Total Revenues	<u>32,446,742</u>	<u>31,055,997</u>	4.5
Expenses			
Administration	1,752,697	1,582,113	10.8
District Support Services	595,467	764,625	(22.1)
Elementary & Secondary Regular Instruction	8,470,554	7,165,849	18.2
Vocational Education Instruction	611,896	536,782	14.0
Special Education Instruction	4,449,102	4,059,441	9.6
Community Education and Services	1,053,349	926,639	13.7
Instructional Support Services	1,734,195	1,554,941	11.5
Pupil Support Services	3,581,889	3,243,686	10.4
Sites and Buildings	5,131,131	4,980,347	3.0
Fixed Costs	190,326	150,416	26.5
Interest on Long-Term Debt	650,884	1,028,746	(36.7)
Depreciation - Unallocated	454,300	454,499	(0.0)
Total Expenses	<u>28,675,790</u>	<u>26,448,084</u>	8.4
Change in Net Position	3,770,952	4,607,913	
Net Position - Beginning	<u>2,651,979</u>	<u>(1,955,934)</u>	235.6
Net Position - Ending	<u>\$ 6,422,931</u>	<u>\$ 2,651,979</u>	142.2 %

The District's total revenues were \$32,446,742 for the year ended June 30, 2024. Property taxes and state aid payments accounted for 85 percent of total revenue for the year.

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
For the Year Ended June 30, 2024**

The total cost of all programs and services was \$28,675,790. The District's expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net position \$3,770,952 over last year. For the year ended June 30, 2024, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by \$1,912,883. For the year ended June 30, 2023, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by \$3,266,170.

**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		Increase (Decrease)	Percentage Increase (Decrease)
	2024	2023		
Governmental Funds				
General	\$ 5,788,918	\$ 4,759,231	\$ 1,029,687	21.6 %
Debt Service Fund	995,739	925,205	70,534	7.6

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**

	2024	2023	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 2,449,791	\$ 2,439,928	\$ 9,863	0.4 %
Interest Earnings	183,704	162,291	21,413	13.2
Other	855,557	1,048,856	(193,299)	(18.4)
State Sources	19,967,199	18,716,947	1,250,252	6.7
Federal Sources	1,948,040	2,012,630	(64,590)	(3.2)
Other	77,171	3,082	74,089	2,403.9
Total General Fund Revenue	\$ <u>25,481,462</u>	\$ <u>24,383,734</u>	\$ <u>1,097,728</u>	4.5 %

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
For the Year Ended June 30, 2024**

Total general fund revenue increased by \$1,097,728 or 4.5 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**

	<u>2024</u>	<u>2023</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 15,590,798	\$ 14,791,489	\$ 799,309	5.4 %
Employee Benefits	4,207,348	3,715,368	491,980	13.2
Purchased Services	2,277,203	2,028,499	248,704	12.3
Supplies and Materials	1,400,552	1,959,714	(559,162)	(28.5)
Capital Expenditures	1,128,560	1,723,263	(594,703)	(34.5)
Debt Service	282,672	331,803	(49,131)	(14.8)
Other Expenditures	170,124	152,665	17,459	11.4
Total General Fund Expenditures	<u>\$ 25,057,257</u>	<u>\$ 24,702,801</u>	<u>\$ 354,456</u>	1.4 %

General Fund Budgetary Highlights

During the year the District revised its budget to account for increases in state and federal revenue.

The District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by \$346,885. The actual results for the year show a surplus of \$1,029,687 due to the District being under budget for several expenditures along with some increases in local funding.

**Capital Assets and Debt Administration**

Capital Assets

Note 3 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2024. Additions totaling \$325,309 included athletic equipment, computer hardware, grounds equipment, roofing, and school building additions of cabinets and an elevator. The District entered into a new REA lease for \$645,519, and the old REA lease of \$245,156 was removed.

Long-Term Debt

At year-end, the District had \$35,733,806 of long-term debt. This consisted of bonded indebtedness net of premiums and discounts of \$34,965,462, financed purchases of \$118,224, lease payable of \$629,747, and severance payable of \$20,373. Note 6 to the financial statements present details and payment provisions of these items.

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
For the Year Ended June 30, 2024**

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**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 79% of general fund expenditures.
- The District receives 67% 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 for the past several years to receive additional increases in the general education funding formula from the State.
- Future building repairs.
- Increased energy costs.
- Stability of student enrollment. The District has experienced lower class sizes in comparison to the past and expects this trend to continue. Until the enrollment for the District stabilizes, continued adjustments in staff will be necessary.
- On November 5, 2024, the District was able to pass an operating referendum equal to \$900 per pupil, effective for ten years. With approval of the operating referendum, the District can retain quality teachers, retain quality programs, maintain adequate class sizes, and maintain elective classes and activities that support diverse student interest.

**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, 2024**

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<b>ASSETS</b>	
Cash and Investments	\$ 10,135,081
Property Taxes Receivable, Net of Allowance	3,280,757
Accounts Receivable	106,925
Long-Term Lease Receivable	18,034
Due From Department of Education	2,217,702
Due From Federal Govt. - DOE	677,752
Prepaid Items	204,185
Inventory	76,047
Capital Assets	
Land	861,515
Other Capital Assets, Net of Depreciation	51,110,821
	<hr/>
<b>TOTAL ASSETS</b>	<b>68,688,819</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Cost Sharing Defined Benefit Pension Plan	4,183,389
Other Postemployment Benefit Plan	171,605
	<hr/>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>4,354,994</b>
<b>LIABILITIES</b>	
Accounts Payable	170,302
Due To Other MN School Districts	65,302
Due To Other Governments	110
Payroll Deductions	1,525,018
Interest Payable	322,428
Vacation Payable	104,602
Long-Term Liabilities Due Within One Year	3,821,002
Long-Term Liabilities	
Bonds, Net Unamortized Premiums	34,965,462
Financed Purchases	118,224
Lease Payable	629,747
Severance Payable	20,373
Net Pension Liability	16,805,870
Net Other Postemployment Benefit Liability	1,536,254
Less Amounts Due Within One Year	(3,821,002)
Total Long-Term Liabilities	50,254,928
	<hr/>
<b>TOTAL LIABILITIES</b>	<b>56,263,692</b>

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**STATEMENT OF NET POSITION - CONTINUED**  
**June 30, 2024**

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DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied - Subs. Years	\$ 6,929,697
Leases	18,034
Cost Sharing Defined Benefit Pension Plan	2,954,823
Other Postemployment Benefit Plan	454,636
	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	10,357,190
NET POSITION	
Net Investment in Capital Assets	16,483,903
Restricted for:	
Student Activities	319,736
Scholarships	26,010
American Indian Ed	45,734
Operating Capital	731,521
Medical Assistance	18,491
Food Service	645,531
Community Education	274,376
ECFE	40,611
School Readiness	115,933
Community Service	4,178
Debt Service	675,325
Permanent Fund - Non Expendable	25,000
Permanent Fund - Expendable	9,243
Unrestricted	(12,992,661)
	<hr/>
TOTAL NET POSITION	\$ <u>6,422,931</u>

See Notes to the Financial Statements



**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2024**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	\$ 1,752,697	\$	\$	\$ 670	\$ (1,752,027)
District Support Services	595,467			4,005	(591,462)
Elementary & Secondary					
Regular Instruction	8,470,554	293,625	2,901,500	41,330	(5,234,099)
Vocational Education Instruction	611,896	3,593	9,507		(598,796)
Special Education Instruction	4,449,102		3,143,319		(1,305,783)
Community Education and Services	1,053,349	595,658	210,013		(247,678)
Instructional Support Services	1,734,195	79,503	525,785	33,300	(1,095,607)
Pupil Support Services	3,581,889	112,170	1,806,332	81,600	(1,581,787)
Sites and Buildings	5,131,131	12,727	1,048	489,418	(4,627,938)
Fixed Costs	190,326				(190,326)
Interest on Long-Term Debt	650,884				(650,884)
Depreciation - Unallocated	454,300				(454,300)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 28,675,790</b>	<b>\$ 1,097,276</b>	<b>\$ 8,597,504</b>	<b>\$ 650,323</b>	<b>(18,330,687)</b>
<b>GENERAL REVENUES</b>					
Taxes					
Property Taxes, Levied for General Purposes					2,451,335
Property Taxes, Levied for Community Education and Services					155,716
Property Taxes, Levied for Debt Services					3,314,971
Property Taxes, Levied for OPEB Debt Services					226,665
Unrestricted State Aid					15,107,893
Unrestricted Investment Earnings					329,832
Other General Revenue					515,227
<b>TOTAL GENERAL REVENUES</b>					<b>22,101,639</b>
Change in Net Position					3,770,952
Net Position - Beginning					2,651,979
Net Position - Ending					<b>\$ 6,422,931</b>

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2024**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 5,744,609	\$ 3,075,474	\$ 1,314,998	\$ 10,135,081
Current Property Taxes Receivable	1,086,057	1,998,700	138,865	3,223,622
Delinquent Property Taxes Receivable	25,262	112,298	21,575	159,135
Accounts Receivable	84,959		21,966	106,925
Long-Term Lease Receivable	18,034			18,034
Due From Department of Education	2,120,729	71,642	25,331	2,217,702
Due From Federal Govt. - DOE	642,117		35,635	677,752
Prepaid Items	201,720		2,465	204,185
Inventory			76,047	76,047
<b>TOTAL ASSETS</b>	<b>\$ 9,923,487</b>	<b>\$ 5,258,114</b>	<b>\$ 1,636,882</b>	<b>\$ 16,818,483</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 151,285		\$ 19,017	\$ 170,302
Due To Other MN School Districts	65,302			65,302
Due To Other Governments	110			110
Payroll Deductions	1,443,833		81,185	1,525,018
<b>TOTAL LIABILITIES</b>	<b>1,660,530</b>		<b>100,202</b>	<b>1,760,732</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Delinquent Taxes	25,262	112,298	21,575	159,135
Leases	18,034			18,034
Property Taxes Levied - Subs. Years	2,430,743	4,150,077	348,877	6,929,697
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,474,039</b>	<b>4,262,375</b>	<b>370,452</b>	<b>7,106,866</b>
<b>FUND BALANCES</b>				
Fund Balance:				
Nonspendable: Prepaid	201,720			201,720
Nonspendable: Inventory			78,512	78,512
Nonspendable: Scholarships			25,000	25,000
Restricted for Student Activities	319,736			319,736
Restricted for American Indian Ed	45,734			45,734
Restricted for Operating Capital	731,521			731,521
Restricted for Food Service			567,019	567,019
Restricted for School Readiness			115,933	115,933
Restricted for Community Education			274,376	274,376
Restricted for ECFE			40,611	40,611
Restricted for Community Service			4,178	4,178
Restricted for OPEB Debt Service			51,356	51,356
Restricted for Debt Service		995,739		995,739
Restricted for Scholarships	26,010		9,243	35,253
Restricted for Medical Assistance	18,491			18,491
Committed for Severance	20,373			20,373
Assigned for Technology	1,326,486			1,326,486
Assigned for Improvements	544,439			544,439
Unassigned	2,554,408			2,554,408
<b>TOTAL FUND BALANCES</b>	<b>5,788,918</b>	<b>995,739</b>	<b>1,166,228</b>	<b>7,950,885</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 9,923,487</b>	<b>\$ 5,258,114</b>	<b>\$ 1,636,882</b>	<b>\$ 16,818,483</b>

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, 2024**

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Total fund balances - governmental funds	\$ 7,950,885
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	96,014,614
Less accumulated depreciation/amortization	(44,042,278)
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.	
	4,354,994
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	(34,560,000)
Financed purchases	(118,224)
Unamortized premiums	(405,462)
Severance payable	(20,373)
Lease payable	(629,747)
Net Pension Liability	(16,805,870)
Net other postemployment benefit liability	(1,536,254)
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.	
	(3,409,459)
Vacation payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	
	(104,602)
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds.	
	159,135
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.	
	<u>(322,428)</u>
Net position - governmental activities	<u>\$ 6,422,931</u>

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, 2024**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Property Tax Levies	\$ 2,449,791	\$ 3,307,150	\$ 380,370	\$ 6,137,311
Other Local & County Revenues	1,039,261	111,581	658,135	1,808,977
Revenue From State Sources	19,967,199	716,422	871,232	21,554,853
Revenue From Federal Sources	1,948,040		743,822	2,691,862
Sale/Other Conversion of Asset	77,171		103,281	180,452
<b>TOTAL REVENUES</b>	<b>25,481,462</b>	<b>4,135,153</b>	<b>2,756,840</b>	<b>32,373,455</b>
<b>EXPENDITURES</b>				
Current				
Administration	1,735,843			1,735,843
District Support Services	547,890			547,890
Elementary & Secondary				
Regular Instruction	10,337,116			10,337,116
Vocational Education Instruction	604,033			604,033
Special Education Instruction	4,442,910			4,442,910
Community Education and Services			1,053,083	1,053,083
Instructional Support Services	1,614,367			1,614,367
Pupil Support Services	1,922,254		1,405,584	3,327,838
Sites and Buildings	2,251,286			2,251,286
Fixed Costs	190,326			190,326
Debt Service				
Principal	263,075	3,240,000	225,000	3,728,075
Interest and Other Fees	19,597	824,619	9,450	853,666
Capital Outlay	1,128,560		32,678	1,161,238
<b>TOTAL EXPENDITURES</b>	<b>25,057,257</b>	<b>4,064,619</b>	<b>2,725,795</b>	<b>31,847,671</b>
Revenues Over Expenditures	424,205	70,534	31,045	525,784
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Issued	85,908			85,908
Issuance of Leases	645,139			645,139
Transfers In			125,565	125,565
Transfers Out	(125,565)			(125,565)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>605,482</b>		<b>125,565</b>	<b>731,047</b>
Net Change in Fund Balances	1,029,687	70,534	156,610	1,256,831
Fund Balances - Beginning	4,759,231	925,205	1,009,618	6,694,054
Fund Balances - Ending	<u>\$ 5,788,918</u>	<u>\$ 995,739</u>	<u>\$ 1,166,228</u>	<u>\$ 7,950,885</u>

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, 2024**

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Total net change in fund balances - governmental funds \$ 1,256,831

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	970,828
Depreciation/Amortization	(3,632,700)

Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position. 3,728,075

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. (731,047)

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. 202,782

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 11,377

Change in net pension liability. 733,206

Change in deferred outflows and inflows of resources related to net pension liability. 1,179,677

Changes in deferred outflows and inflows of resources related to other postemployment benefit liability. 164,817

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	(16,148)
Other postemployment benefits	(94,544)
Severance payable	<u>(2,202)</u>

Change in net position - governmental activities \$ 3,770,952

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
June 30, 2024**

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	<u>OPEB Trust Fund</u>
ASSETS	
Investments	\$ <u>999,518</u>
TOTAL ASSETS	<u>999,518</u>
LIABILITIES	
Accounts Payable	<u>54,988</u>
TOTAL LIABILITIES	<u>54,988</u>
NET POSITION	
Held in Trust for OPEB	<u>944,530</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 999,518</u>

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, 2024**

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	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	\$ <u>35,876</u>
TOTAL ADDITIONS	<u>35,876</u>
DEDUCTIONS	
Benefits	<u>54,988</u>
TOTAL DEDUCTIONS	<u>54,988</u>
Change in Net Position	(19,112)
Net Position Held in Trust for OPEB - Beginning	<u>963,642</u>
Net Position Held in Trust for OPEB - Ending	<u><u>\$ 944,530</u></u>

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2024**

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**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



**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

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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.

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

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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 2023 which are not payable until 2024, 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.

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

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Accounts Receivable – 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.

Inventory – 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.

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

Capital Assets – 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.

Leases – The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the District has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the District is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the lease commencement date. The District has made an accounting policy election to use a risk free rate based on US Treasury T-bill rate as of the lease commencement. The District accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The District continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the District is reasonable certain to exercise.

The amortizable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

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The District's lease agreements do not include any material residual value guarantees or restrictive covenants.

The District is a lessor for a noncancellable lease of a building. The District recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term.

Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

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

- The District uses its estimated incremental borrowing rate as the discount rate for leases. The District has made an accounting policy election to use a risk free rate based on US Treasury T-bill rate as of the lease commencement.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Vacation Payable – 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.

Long-Term Obligations – 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.

Other Postemployment Benefits (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District 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

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

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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.

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

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

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

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District’s financial statements. Net investment in capital assets, consists of capital and lease assets, net of accumulated depreciation/amortization, 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

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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.

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**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	\$ 1,723,573	\$	\$ 1,723,573
Investments	8,411,508	999,518	9,411,026
Total	<u>\$ 10,135,081</u>	<u>\$ 999,518</u>	<u>\$ 11,134,599</u>

As of June 30, 2024, the District had the following investments:

Investments	Fair Value	Investment Maturities (in Years) <1
Minnesota School District Liquid Asset Fund	\$ 88,863	\$ 88,863
MnTrust	9,322,163	9,322,163
Total Investments by Fair Value Level	<u>\$ 9,411,026</u>	<u>\$ 9,411,026</u>

Investments	Fair Value Level 1	Fair Value Level 2	Total
Minnesota School District Liquid Asset Fund	\$ 88,863	\$	\$ 88,863
MnTrust	9,322,163		9,322,163
Total Investments by Fair Value Level	<u>\$ 9,411,026</u>	<u>\$</u>	<u>\$ 9,411,026</u>

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.

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.

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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, 2024, 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.



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**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2024, was as follows:

<b>Governmental Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 861,515	\$ _____	\$ _____	\$ 861,515
Total Capital Assets, Not Being Depreciated	<u>861,515</u>	<u>_____</u>	<u>_____</u>	<u>861,515</u>
Capital Assets, Being Depreciated:				
Land Improvements	3,203,775			3,203,775
Buildings	83,752,284	113,778		83,866,062
Equipment	7,008,359	211,531		7,219,890
Right to Use - Leased Assets	463,009	645,519	245,156	863,372
Total Capital Assets, Being Depreciated	<u>94,427,427</u>	<u>970,828</u>	<u>245,156</u>	<u>95,153,099</u>
Less Accumulated Depreciation For:				
Land Improvements	1,212,756	128,780		1,341,536
Buildings	33,931,921	2,824,786		36,756,707
Equipment	5,199,545	527,851		5,727,396
Right to Use - Leased Assets	310,512	151,283	245,156	216,639
Total Accumulated Depreciation	<u>40,654,734</u>	<u>3,632,700</u>	<u>245,156</u>	<u>44,042,278</u>
Total Capital Assets, Being Depreciated, Net	<u>53,772,693</u>	<u>(2,661,872)</u>	<u>_____</u>	<u>51,110,821</u>
Governmental Activities Capital Assets, Net	<u>\$ 54,634,208</u>	<u>\$ (2,661,872)</u>	<u>\$ _____</u>	<u>\$ 51,972,336</u>

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

District Support Services	\$ 43,760
Elementary & Secondary Regular Instruction	43,653
Vocational Education Instruction	4,156
Special Education Instruction	2,332
Instructional Support	7,355
Pupil Support Services	208,931
Sites and Buildings	<u>2,868,213</u>
	3,178,400
Unallocated	454,300
Total Depreciation/Amortization Expense	<u>\$ 3,632,700</u>

**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.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for 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. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

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

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Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 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, 2024, were \$371,188. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2024, the District reported a liability of \$3,265,663 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 \$90,008.

The net pension liability was measured as of June 30, 2023, 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, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0584% at the end of the measurement period and 0.0610% for the beginning of the period.

District's proportionate share of net pension liability	\$ 3,265,663
State of Minnesota's proportionate share of the net pension liability associated with the District	90,008
Total	<u>\$ 3,355,671</u>

For the year ended June 30, 2024, the District recognized pension expense of \$420,079 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$404 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, 2024, 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	\$ 108,392	\$ 24,539
Difference between projected and actual investment earnings		163,043
Changes in actuarial assumptions	575,671	895,088
Changes in proportion		218,711
Contributions paid to PERA subsequent to the measurement date	371,188	
Total	<u>\$ 1,055,251</u>	<u>\$ 1,301,381</u>

\$371,188 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, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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Year Ending June 30	Pension Expense Amount
2025	\$ (2,046)
2026	(600,039)
2027	55,605
2028	(70,838)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent. Benefit increases after retirement are assumed to be 1.25 percent.

Salary growth assumptions range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years.

Mortality rates are based on the Pub-2010 General Employee Mortality Table.

Actuarial assumptions are reviewed every four years. The most recent four-year experience study was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

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Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Discount Rate – The discount rate used to measure the total pension liability in 2023 was 7.0%. 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:

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease (6%)	Current (7%)	1% Increase (8%)
\$ 5,777,219	\$ 3,265,663	\$ 1,199,812

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](http://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.

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

Tier I Benefits:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1 <sup>st</sup> ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 <sup>st</sup> ten years if service years are up to July 1, 2006	1.2 percent per year
	1 <sup>st</sup> 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

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.

Tier II Benefits

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, 2022, June 30, 2023, and June 30, 2024, were:

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	June 30, 2022		June 30, 2023		June 30, 2024	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	12.34%	11.00%	12.55%	11.25%	12.75%
Coordinated	7.50%	8.34%	7.50%	8.55%	7.75%	8.75%

The following is a reconciliation of employer contributions in TRA's fiscal year 2023 ACFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations:

Employer contributions reported in TRA's ACFR	<i>in thousands</i>
Statement of Changes in Fiduciary Net Position	\$ 508,764
Employer contributions not related to future contribution efforts	(87)
TRA's contributions not included in allocation	(643)
Total employer contributions	508,034
Total non-employer contributions	35,587
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$ 543,621</u>

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

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2023, 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, 2023
Measurement Date	June 30, 2023
Experience Study	June 28, 2019 (demographic and economic assumptions)
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	7.00%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of Living Adjustment	1.00% for January 2019 through January 2023, then increasing by 0.10% each year up to 1.50% annually

Mortality Assumption

Pre-retirement RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.

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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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Geometric Mean)</u>
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%

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

Changes in actuarial assumptions since the 2022 valuation:

The 2023 Tax Finance and Policy Bill, effective July 1, 2025:

- The employer contribution rate will increase from 8.75 percent to 9.5 percent on July 1, 2025.
- The employee contribution rate will increase from 7.75 percent to 8 percent on July 1, 2025.
- The pension adjustment rate for school districts and the base budgets for Minnesota State, Perpich Center for Arts Education, and Minnesota Academics will increase to reflect the 0.75 percent employer contribution rate increase.

The 2024 Omnibus Pensions and Retirement Bill:

- The Normal Retirement Age (NRA) for active and eligible deferred Tier II members will be 65 effective July 1, 2024.
- TRA’s amortization date will remain the same at 2048.

Discount Rate - The discount rate used to measure the total pension liability was 7.00 percent. There was no change in discount rate since prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2023 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).



**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

Net Pension Liability - On June 30, 2024, the District reported a liability of \$13,540,207 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, 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 0.1640% at the end of the measurement period and 0.1587% 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	\$	13,540,207
State's proportionate share of the net pension liability associated with the District	\$	948,544

For the year ended June 30, 2024, the District recognized pension expense of (\$937,772). It also recognized \$133,561 as an increase to pension expense for the support provided by direct aid.

On June 30, 2024, 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	\$ 139,138	\$ 201,717
Net difference between projected and actual earnings on plan inv.		350,125
Changes in actuarial assumptions	1,672,589	
Changes in proportion	359,905	1,101,600
Contributions paid to TRA subsequent to the measurement date	956,506	
Total	<u>\$ 3,128,138</u>	<u>\$ 1,653,442</u>

\$956,506 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, 2025. 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
2025	\$ (137,828)
2026	(367,629)
2027	1,334,029
2028	(357,580)
2029	47,198

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED  
June 30, 2024**

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Pension Liability Sensitivity - The following presents the net pension liability calculated using the discount rate of 7.0 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 (6.0 percent) or one percentage higher (8.0 percent) than the current rate.

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease (6.0%)	Current (7.0%)	1% Increase (8.0%)
\$ 21,595,635	\$ 13,540,207	\$ 6,945,859

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](http://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 (\$517,693) 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 \$137,256. The annual employer contributions were \$66,000 and \$71,256 was the implicit subsidy. These costs are recognized as an expense when claims or premiums are paid. The General Fund paid for \$82,268 of 23-24 cost and transferred \$54,988 from the OPEB trust fund.

Employees Covered by Benefit Term – At June 30, 2024, the following employees were covered by the benefit terms:

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

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Inactive plan members or beneficiaries currently receiving benefit payments	9
Active plan members	270
	<u>279</u>

Net OPEB Liability – The District’s net OPEB liability of \$1,536,254 was measured as of June 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2022.

Actuarial Assumptions – The total OPEB liability in the July 1, 2022 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	service graded table
Investment rate	5.0 percent (net of investment expenses)
Healthcare cost trend rates	6.25 percent in 2023 grading to 5 percent over 5 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-2021 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Cash	5%	4.00%
Fixed Income	95%	5.00%
Total	100%	5.00%

Discount Rate – The discount rate used to measure the total OPEB liability was 4.3 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.

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

Changes in the Net OPEB Liability:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at Beginning of Year	\$ 2,405,352	\$ 963,642	\$ 1,441,710
Changes for the year:			
Service Cost	133,454		133,454
Interest Cost	101,306		101,306
Assumption Changes	(22,072)		(22,072)
Employer Contributions		82,268	(82,268)
Projected Investment Return		48,182	(48,182)
Differences between Expected and Actual Experience		(12,056)	12,056
Benefit Payments	(137,256)	(137,256)	
Administrative Expenses		(250)	250
Net changes	75,432	(19,112)	94,544
Balances at End of Year	\$ 2,480,784	\$ 944,530	\$ 1,536,254

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 (3.3 percent) or one percentage point higher (5.3 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (3.3%)	Current (4.3%)	1% Increase (5.3%)
\$ 1,668,379	\$ 1,536,254	\$ 1,405,799

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 (5.25 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.25 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.25% decreasing to 4.00% then 3.00%)	(6.25% decreasing to 5.00% then 4.00%)	(7.25% decreasing to 6.00% then 5.00%)
\$ 1,303,185	\$ 1,536,254	\$ 1,804,261

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2024, the District recognized OPEB expense of \$185,561. At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 102,989	\$ 299,250
Investment Losses/Gains	52,520	
Changes in Assumptions	16,096	155,386
Total	<u>\$ 171,605</u>	<u>\$ 454,636</u>

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
2025	\$ (44,455)
2026	(56,488)
2027	(102,622)
2028	(75,787)
2029	(3,679)

**NOTE 6 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**

<b>Primary Government:</b>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GO Refunding Bonds	\$ 38,025,000	\$	\$ 3,465,000	\$ 34,560,000	\$ 3,595,000
Unamortized Premium	584,049		178,587	405,462	
Total Bonds	38,609,049		3,643,587	34,965,462	3,595,000
Financed Purchases	125,120	85,908	92,804	118,224	63,782
Lease Payable	154,879	645,139	170,271	629,747	162,220
Severance Payable	18,171	2,202		20,373	
Total Long-Term Liabilities	<u>\$ 38,907,219</u>	<u>\$ 733,249</u>	<u>\$ 3,906,662</u>	<u>\$ 35,733,806</u>	<u>\$ 3,821,002</u>

The District's interest expense for the year ended June 30, 2024, was \$650,884.

Severance payable and lease payable are generally liquidated by the general fund.

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

**A. General Obligation Bonds**

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2024
GO Crossover Refunding	2016	2.0-2.5%	2025/33	\$ 9,965,000	\$ 75,000	\$ 9,820,000
GO Crossover Refunding	2020	2.08-3.00%	2025/30	9,665,000	200,000	9,230,000
GO Refunding	2020	1.7%	2025	12,675,000	2,965,000	1,815,000
GO Refunding	2021	0.86-1.57%	2025/31	9,110,000		9,110,000
GO Refunding	2021	4.0%	2025/26	4,440,000		4,360,000
GO OPEB Refunding	2016	2.15%	2025	1,300,000	225,000	225,000
						<u>\$ 34,560,000</u>

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2025	\$ 3,595,000	\$ 773,825
2026	3,795,000	679,131
2027	4,040,000	548,799
2028	4,190,000	463,125
2029	4,290,000	390,614
2030-2033	14,650,000	763,171
	<u>\$ 34,560,000</u>	<u>\$ 3,618,665</u>

**B. Financed Purchases**

In FY23, the District entered into financed purchase agreements to finance the purchase of buses. In FY24, the District entered into a financed purchase agreement to finance the purchase of a Bobcat.

The future obligations as of June 30, 2024, are as follows:

Year Ending June 30	Principal	Interest
2025	\$ 63,782	\$ 4,487
2026	54,442	1,356
	<u>\$ 118,224</u>	<u>\$ 5,843</u>

**C. Lease Payable**

The District is a lessee for noncancellable leases of buildings and equipment. The District leases copy machines at its school locations in Thief River Falls. The term of the lease is for a period of 60 months, terminating on December 31, 2026, with a monthly payment of \$3,828. The District also leases for use of the Ralph Englestad Arena facilities within the City of Thief River Falls. The term of the lease is for a period of five years, terminating on August 31, 2028, with annual payments increasing each year.

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**June 30, 2024**

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The following is a schedule by years of future minimum payments required under the leases:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 162,220	\$ 24,588
2026	170,438	18,483
2027	155,958	12,140
2028	141,131	6,175
Total	<u>\$ 629,747</u>	<u>\$ 61,386</u>

**NOTE 7 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, 2024, the estimated liability under these plans was \$20,373.

**NOTE 8 INTERFUND TRANSFERS**

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$125,565

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

**NOTE 9 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, 2024.

**NOTE 10 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 11 NEW PRONOUNCEMENTS**

GASB Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences through aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The statement is effective for fiscal years beginning after December 15, 2023.

GASB Statement No. 102, *Certain Risk Disclosures*, requires entities to disclose critical information about their exposure to risks due to certain concentrations or limitations that could lead to financial distress or operational challenges. This statement is effective for fiscal years beginning after June 15, 2024.

GASB Statement No. 103, *Financial Reporting Model Improvements*, revises the requirements for management's discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combine financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original-to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

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, 2024**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Property Tax Levies	\$ 2,477,455	\$ 2,452,702	\$ 2,449,791	\$ (2,911)
Other Local & County Revenues	704,316	760,696	1,039,261	278,565
Revenue From State Sources	19,805,923	19,959,630	19,967,199	7,569
Revenue From Federal Sources	1,458,075	1,980,136	1,948,040	(32,096)
Sale/Other Conversion of Asset	3,000	3,000	77,171	74,171
<b>TOTAL REVENUES</b>	<u>24,448,769</u>	<u>25,156,164</u>	<u>25,481,462</u>	<u>325,298</u>
<b>EXPENDITURES</b>				
Current				
Administration	1,708,800	1,822,284	1,735,843	(86,441)
District Support Services	615,563	638,973	547,890	(91,083)
Elementary & Secondary				
Regular Instruction	10,429,069	10,274,814	10,337,116	62,302
Vocational Education Instruction	537,764	586,138	604,033	17,895
Special Education Instruction	4,406,424	4,512,656	4,442,910	(69,746)
Instructional Support Services	1,268,383	1,401,227	1,614,367	213,140
Pupil Support Services	1,660,874	2,003,373	1,922,254	(81,119)
Sites and Buildings	2,315,891	2,254,132	2,251,286	(2,846)
Fixed Costs	214,700	266,700	190,326	(76,374)
Debt Service				
Principal	224,599	234,804	263,075	28,271
Interest	2,996	5,218	19,597	14,379
Capital Outlay	632,672	664,371	1,128,560	464,189
<b>TOTAL EXPENDITURES</b>	<u>24,017,735</u>	<u>24,664,690</u>	<u>25,057,257</u>	<u>392,567</u>
Revenues Over (Under) Expenditures	431,034	491,474	424,205	(67,269)
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Issued			85,908	85,908
Issuance of Leases			645,139	645,139
Transfer Out	(103,000)	(144,589)	(125,565)	19,024
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(103,000)</u>	<u>(144,589)</u>	<u>605,482</u>	<u>750,071</u>
Net Change in Fund Balances	328,034	346,885	1,029,687	682,802
Fund Balances - Beginning	4,759,231	4,759,231	4,759,231	
Fund Balances - Ending	<u>\$ 5,087,265</u>	<u>\$ 5,106,116</u>	<u>\$ 5,788,918</u>	<u>\$ 682,802</u>

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	2022	2023	2024
Total OPEB Liability								
Service Cost	\$ 197,265	\$ 190,780	\$ 136,417	\$ 157,177	\$ 192,077	\$ 154,028	\$ 133,551	\$ 133,454
Interest	94,723	93,635	104,547	80,289	66,226	62,809	107,193	101,306
Assumption Changes		(67,610)	30,284	89,562	(100,437)	(207,030)	1,756	(22,072)
Plan Changes			34,354					
Differences Between Expected and Actual Experience			(820,545)		308,973		(448,876)	
Benefit Payments	(374,435)	(273,548)	(205,108)	(160,377)	(224,735)	(169,415)	(149,792)	(137,256)
Net Change in Total OPEB Liability	(82,447)	(56,743)	(720,051)	166,651	242,104	(159,608)	(356,168)	75,432
Total OPEB Liability - Beginning	3,371,614	3,289,167	3,232,424	2,512,373	2,679,024	2,921,128	2,761,520	2,405,352
Total OPEB Liability Ending (a)	\$ 3,289,167	\$ 3,232,424	\$ 2,512,373	\$ 2,679,024	\$ 2,921,128	\$ 2,761,520	\$ 2,405,352	\$ 2,480,784
Plan Fiduciary Net Position								
Contributions - Employer	\$ 205,581	\$ 160,062	\$ 133,943	\$ 84,052	\$ 134,689	\$ 106,043	\$ 85,371	\$ 82,268
Projected Investment Return	13,218	17,739	37,762	28,696	27,386	43,708	50,794	48,182
Differences Between Expected and Actual Experience		(9,841)	(29,409)	(6,685)	14,501	(56,902)	(38,355)	(12,056)
Benefit Payments	(374,435)	(273,548)	(205,108)	(160,377)	(224,735)	(169,415)	(149,792)	(137,256)
Administrative Expenses	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Net Change in Plan Fiduciary Net Position	(155,886)	(105,838)	(63,062)	(54,564)	(48,409)	(76,816)	(52,232)	(19,112)
Plan Fiduciary Net Position - Beginning	1,520,449	1,364,563	1,258,725	1,195,663	1,141,099	1,092,690	1,015,874	963,642
Plan Fiduciary Net Position - Ending (b)	\$ 1,364,563	\$ 1,258,725	\$ 1,195,663	\$ 1,141,099	\$ 1,092,690	\$ 1,015,874	\$ 963,642	\$ 944,530
District's Net OPEB Liability - Ending (a) - (b)	\$ 1,924,604	\$ 1,973,699	\$ 1,316,710	\$ 1,537,925	\$ 1,828,438	\$ 1,745,646	\$ 1,441,710	\$ 1,536,254
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	41.49%	38.94%	47.59%	42.59%	37.41%	36.79%	40.06%	38.07%
Covered Payroll	\$ 13,281,098	\$ 13,679,531	\$ 13,720,751	\$ 14,132,373	\$ 14,360,278	\$ 14,791,086	\$ 14,041,880	\$ 14,463,136
District's Net OPEB Liability as a Percentage of Covered Payroll	14.49%	14.43%	9.60%	10.88%	12.73%	11.80%	10.27%	10.62%

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**

<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
<b>PERA</b>					
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
2022	345,783	345,783		4,590,798	7.53
2023	343,980	343,980		4,573,280	7.52
2024	371,188	371,188		4,949,179	7.50
<b>TRA</b>					
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
2022	914,205	914,205		10,932,301	8.36
2023	886,284	886,284		10,339,795	8.57
2024	956,506	956,506		10,931,520	8.75

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

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
<b>PERA</b>							
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
2021	0.0637	2,720,275	83,141	2,803,416	4,582,888	59.36	87.00
2022	0.0610	4,831,220	141,663	4,972,883	4,590,798	105.24	76.67
2023	0.0584	3,265,663	90,008	3,355,671	4,573,280	71.41	83.10
<b>TRA</b>							
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
2021	0.1739	7,610,384	641,965	8,252,349	10,450,494	72.82	86.63
2022	0.1587	12,707,856	942,571	13,650,427	10,932,301	116.24	76.17
2023	0.1640	13,540,207	948,544	14,488,751	10,339,795	130.95	76.42

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.

See Notes to the Required Supplementary Information

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2024**

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**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 EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2024, expenditures exceeded appropriations in the general fund by \$392,567.

**NOTE 3 DEFINED BENEFIT PLANS**

**PERA**

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed to five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in lump sum for calendar year 2024 by March 31, 2024.

**TRA**

Changes in Actuarial Assumptions since the 2023 Valuation:

The 2023 Tax Finance and Policy Bill, effective July 1, 2025:

- The employer contribution rate will increase from 8.75 to 9.5 percent on July 1, 2025.
- The employee contribution rate will increase from 7.75 to 8 percent on July 1, 2025.
- The pension adjustment rate for school districts and the base budgets for Minnesota State, Perpich Center for Arts Education, and Minnesota Academics will increase to reflect the 0.75 percent employer contribution rate increase.

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – CONTINUED**  
**June 30, 2024**

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The 2024 Omnibus Pensions and Retirement Bill:

- The Normal Retirement Age (NRA) for active and eligible deferred Tier II members will be 65 effective July 1, 2024.
- TRA's amortization date will remain the same at 2048.

**NOTE 4 OTHER POSTEMPLOYMENT BENEFITS**

Changes since prior valuation:

- The discount rate was changed from 4.1% to 4.3%

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2024**

	Special Revenue Funds		Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	OPEB Debt Service		
<b>ASSETS</b>					
Cash and Investments	\$ 557,673	\$ 534,636	\$ 188,446	\$ 34,243	\$ 1,314,998
Current Property Taxes Receivable		47,774	91,091		138,865
Delinquent Property Taxes Receivable		9,568	12,007		21,575
Accounts Receivable	252	21,714			21,966
Due From Department of Education		24,779	552		25,331
Due From Federal Govt. - DOE	35,635				35,635
Prepaid Items	2,465				2,465
Inventory	76,047				76,047
<b>TOTAL ASSETS</b>	<b>\$ 672,072</b>	<b>\$ 638,471</b>	<b>\$ 292,096</b>	<b>\$ 34,243</b>	<b>\$ 1,636,882</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 14,046	\$ 4,971	\$	\$	\$ 19,017
Payroll Deductions	12,495	68,690			81,185
<b>TOTAL LIABILITIES</b>	<b>26,541</b>	<b>73,661</b>			<b>100,202</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Delinquent Taxes		9,568	12,007		21,575
Property Taxes Levied - Subs. Years		120,144	228,733		348,877
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		<b>129,712</b>	<b>240,740</b>		<b>370,452</b>
<b>FUND BALANCES</b>					
Fund Balance:					
Nonspendable: Inventory	78,512				78,512
Nonspendable: Scholarships				25,000	25,000
Restricted for Food Service	567,019				567,019
Restricted for School Readiness		115,933			115,933
Restricted for Community Education		274,376			274,376
Restricted for ECFE		40,611			40,611
Restricted for Community Service		4,178			4,178
Restricted for OPEB Debt Service			51,356		51,356
Restricted for Scholarships				9,243	9,243
<b>TOTAL FUND BALANCES</b>	<b>645,531</b>	<b>435,098</b>	<b>51,356</b>	<b>34,243</b>	<b>1,166,228</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 672,072</b>	<b>\$ 638,471</b>	<b>\$ 292,096</b>	<b>\$ 34,243</b>	<b>\$ 1,636,882</b>

**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, 2024**

	<u>Special Revenue Funds</u>		<u>Debt Service</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Community Service Fund</u>	<u>OPEB Debt Service</u>		
<b>REVENUES</b>					
Local Property Tax Levies	\$	\$ 154,948	\$ 225,422	\$	\$ 380,370
Other Local & County Revenues	16,738	640,098		1,299	658,135
Revenue From State Sources	683,563	182,154	5,515		871,232
Revenue From Federal Sources	722,484	21,338			743,822
Sale/Other Conversion of Asset	103,135	146			103,281
<b>TOTAL REVENUES</b>	<b>1,525,920</b>	<b>998,684</b>	<b>230,937</b>	<b>1,299</b>	<b>2,756,840</b>
<b>EXPENDITURES</b>					
Current					
Community Education and Services		1,053,083			1,053,083
Pupil Support Services	1,405,584				1,405,584
Debt Service					
Principal			225,000		225,000
Interest and Other Fees			9,450		9,450
Capital Outlay	32,412	266			32,678
<b>TOTAL EXPENDITURES</b>	<b>1,437,996</b>	<b>1,053,349</b>	<b>234,450</b>		<b>2,725,795</b>
Revenues Over (Under) Expenditures	87,924	(54,665)	(3,513)	1,299	31,045
<b>OTHER FINANCING SOURCES</b>					
Transfer In		125,565			125,565
<b>TOTAL OTHER FINANCING SOURCES</b>		<b>125,565</b>			<b>125,565</b>
Net Change in Fund Balances	87,924	70,900	(3,513)	1,299	156,610
Fund Balances - Beginning	557,607	364,198	54,869	32,944	1,009,618
Fund Balances - Ending	\$ 645,531	\$ 435,098	\$ 51,356	\$ 34,243	\$ 1,166,228



**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION**  
**For the Year Ended June 30, 2024**

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Debt Issued	UFARS Balance End of Year	Reclassify	Financial Statement Balance End of Year
<b>Governmental Funds</b>								
General Fund								
Nonspendable	\$ 253,006	\$	\$	(51,286)	\$	201,720	\$	201,720
Restricted for:								
Student Activities	275,199	419,275	374,738			319,736		319,736
Scholarships	23,466	6,430	3,886			26,010		26,010
American Indian Ed		91,500	45,766			45,734		45,734
Achievement & Integration		127,182	145,370	18,188				
Safe Schools		67,499	67,499					
Long Term Facility Maintenance	(873,448)	717,592	223,295			(379,151)	379,151	
Operating Capital	597,276	585,251	451,006			731,521		731,521
Medical Assistance	23,191		4,700			18,491		18,491
Committed: Severance	18,171			2,202		20,373		20,373
Assigned for Technology	1,148,986			177,500		1,326,486		1,326,486
Assigned for Improvements	335,375			209,064		544,439		544,439
Unassigned	2,958,009	23,466,733	23,740,997	(481,233)	731,047	2,933,559	(379,151)	2,554,408
Food Service Fund								
Nonspendable	48,324			30,188		78,512		78,512
Restricted: Food Service	509,283	1,525,920	1,437,996	(30,188)		567,019		567,019
Community Service Fund								
Restricted for:								
Community Education	198,012	535,973	480,174	20,565		274,376		274,376
ECFE	40,335	136,019	135,743			40,611		40,611
School Readiness	115,933	308,846	413,846	105,000		115,933		115,933
Community Service	9,918	17,846	23,586			4,178		4,178
Debt Service Fund								
Restricted for:								
Debt Service	925,205	4,135,153	4,064,619			995,739		995,739
OPEB Debt Service Fund								
Restricted for:								
OPEB Debt Service	54,869	230,937	234,450			51,356		51,356
Permanent Fund								
Nonspendable	25,000					25,000		25,000
Restricted: Scholarships	7,944	1,299				9,243		9,243
<b>Fiduciary Fund</b>								
OPEB Trust Fund								
Held in Trust for OPEB	963,642	35,876	54,988			944,530		944,530

## 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, 2024, 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 18, 2024.

### **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 – bid laws, depositories of public funds and public 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 & ASSOCIATES, P.C.**  
Thief River Falls, Minnesota

November 18, 2024

## **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, 2024, 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 18, 2024.

### **Report on Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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



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

November 18, 2024

## **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**

#### ***Opinion on Each Major Federal Program***

We have audited Independent School District No. 564’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2024. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Independent School District No. 564 and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Independent School District No. 564’s compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

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

## **Auditor's Responsibilities for the Audit of Compliance**

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

### **Report on Internal Control Over Compliance**

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

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

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

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



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

November 18, 2024

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2024**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal AL Number	Amount
<u>U.S. Department of Education</u>		
Direct Programs:		
P.L.100-297 Indian Education	84.060	\$ 30,286
Passed-Through Minnesota Department of Education:		
Title I	84.010	323,521
Title IV	84.424	14,579
Special Education - Infants and Families	84.181	8,905
COVID-19 Education Stabilization Fund	84.425W	7,158
COVID-19 Education Stabilization Fund	84.425U	830,475
Total AL 84.425		<u>837,633</u>
<i>Special Education Cluster:</i>		
Special Education Grants to States	84.027	462,013
COVID-19 Special Education Preschool Grants	84.173	2,094
Preschool Incentives	84.173	23,815
<i>Total Special Education Cluster</i>		<u>487,922</u>
Passed-Through Pine to Prairie Cooperative:		
Carl Perkins	84.048	12,502
Total Indirect		<u>1,685,062</u>
Total U.S. Department of Education		<u>1,715,348</u>
<u>U.S. Department of Justice</u>		
Passed-Through Tri Valley Opportunity:		
STOP School Violence	16.839	28,335
Total U.S. Department of Justice		<u>28,335</u>
<u>Federal Communications Commission</u>		
Direct Programs:		
COVID-19 Emergency Connectivity Fund Program	32.009	48,659
Total Federal Communications Commission		<u>48,659</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-Through Minnesota Department of Education:		
<i>CCDF Cluster</i>		
COVID-19 Child Care and Development Block Grant	93.575	21,338
Total U.S. Department of Health and Human Services		<u>21,338</u>
<u>U.S. Department of Treasury</u>		
Passed-Through Minnesota Department of Education:		
COVID-19 American Rescue Plan	21.027	155,698
Total U.S. Department of Treasury		<u>155,698</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
COVID-19 Pandemic EBT Administrative Costs	10.649	653
Child and Adult Care Food Program	10.558	3,973
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	107,731
COVID-19 National School Lunch Program	10.555	48,977
National School Lunch Program	10.555	384,888
National School Lunch Program (Nonmonetary Assistance)	10.555	96,800
Summer Food Program for Children	10.559	79,462
<i>Total Child Nutrition Cluster</i>		<u>717,858</u>
Total U.S. Department of Agriculture		<u>722,484</u>
TOTAL FEDERAL AWARDS		<u>\$ 2,691,862</u>

See Notes to the Schedule of Expenditures of Federal Awards



**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2024**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported in the accompanying schedule of expenditures of federal awards (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 Schedule includes the federal award activity of Independent School District No. 564 under programs of the federal government for the year ended June 30, 2024. 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 AL numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

**NOTE 6 SUBRECIPIENTS**

During 2024, the District did not pass any federal money to subrecipients.

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2024**

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**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  no  
Significant deficiency(s) identified?  yes  none reported  
Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal Control over major programs:  
Material weakness(es) identified?  yes  no  
Significant deficiency(s) identified?  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)?  yes  no

Identification of major programs:

<u>AL Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.425U	COVID-19 Education Stabilization Fund
84.425W	COVID-19 Education Stabilization Fund

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

**Section II-Financial Statement Findings**

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

**Section III- Federal Award Findings and Questioned Costs**

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

**INDEPENDENT SCHOOL DISTRICT NO. 564  
THIEF RIVER FALLS, MINNESOTA  
SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2024**

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**2023-001 FINDING**

Criteria

An appropriate system of internal controls requires the District to have proper support and approval for all District transactions incurred as well as record said transactions in the general ledger.

Condition

The District received several IRS penalties throughout the fiscal year 2023 that were for payroll periods related to September 2021 through June 2022. The District overpaid the penalties. In addition, the payment for the penalties was not presented to the School Board for approval, and the expenses were not recorded in the District's general ledger. Instead, these payments were recorded as an outstanding deposit on the District's bank reconciliation for several months as the District believed these penalties would be forgiven and refunded to the District.

Cause

Oversight by the District.

Effect

The District did not follow their procedures which require that all payments should be approved by the School Board, and the expenditures in the District's general ledger were understated.

Recommendation

The District should review its payroll procedures. The District should also record all transactions in the general ledger, and all payments should be brought before the School Board for approval prior to payment being made.

Corrective Action Taken

The District's penalties were forgiven in fiscal year 2024. The District did not incur any additional penalties in 2024 and all transactions were recorded in the general ledger and brought before the School Board prior to payment. Corrective action was taken in 2024, and this finding has been removed.

**INDEPENDENT SCHOOL DISTRICT NO. 564**  
**THIEF RIVER FALLS, MINNESOTA**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE**  
**June 30, 2024**

District Name: INDEPENDENT SCHOOL DISTRICT NO. 564

District Number: 564

	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	25,481,462	25,481,463	(1)	Total Revenue			
Total Expenditures	25,057,257	25,057,258	(1)	Total Expenditures			
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	201,720	201,720		460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
401 Student Activities	319,736	319,736		407 Capital Projects Levy			
402 Scholarships	26,010	26,011	(1)	409 Alternative Facility Program			
403 Staff Development				413 Projects Funded By COP			
407 Capital Projects Levy				<i>Restricted</i>			
408 Cooperative Revenue				464 Restricted Fund Balance			
413 Building Projects Funded by COP				<i>Unassigned:</i>			
414 Operating Debt				463 Unassigned Fund Balance			
416 Levy Reduction				Reconciliation of Building Construction			
417 Taconite Building Maintenance							
420 American Indian Ed	45,734	45,734		<b>07 DEBT SERVICE</b>			
424 Operating Capital	731,521	731,521		Total Revenue	4,135,153	4,135,153	
426 \$25 Taconite				Total Expenditures	4,064,619	4,064,619	
427 Disabled Accessibility				<i>Non Spendable</i>			
428 Learning & Development				460 Non Spendable Fund Balance			
434 Area Learning Center				<i>Restricted/Reserved:</i>			
435 Contracted Alt Programs				425 Bond Refundings			
436 State Approved Alt Program				451 QZAB Payments			
438 Gifted & Talented				<i>Restricted</i>			
440 Teacher Development and Eval.				464 Restricted Fund Balance	995,739	995,737	2
441 Basic Skills Programs				<i>Unassigned:</i>			
448 Achievement & Integration				463 Unassigned Fund Balance			
449 Safe Schools Levy				Reconciliation of Debt Service	9,195,511	9,195,509	2
451 QZAB Payments							
452 OPEB Liab Not In Trust				<b>08 TRUST</b>			
453 Unfunded Sev & Retirement Levy				Total Revenue	1,299	1,299	
467 Long Term Facilities Maintenance	(379,151)	(379,151)		Total Expenditures			
472 Medical Assistance	18,491	18,492	(1)	<i>Unassigned:</i>			
<i>Restricted</i>				402 Scholarships	34,243	34,243	
464 Restricted Fund Balance				422 Unassigned Fund Balance			
<i>Committed</i>				Reconciliation of Trust	35,542	35,542	
418 Committed for Separation	20,373	20,373					
461 Committed				<b>20 INTERNAL SERVICE</b>			
<i>Assigned</i>				Total Revenue			
462 Assigned Fund Balance	1,870,925	1,870,926	(1)	Total Expenditures			
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned Fund Balance	2,933,559	2,933,560	(1)	422 Unassigned Fund Balance			
Reconciliation of General	56,327,637	56,327,643	(6)	Reconciliation of Internal Service			
<b>02 FOOD SERVICE</b>				<b>25 OPEB REVOCABLE TRUST FUND</b>			
Total Revenue	1,525,920	1,525,919	1	Total Revenue			
Total Expenditures	1,437,996	1,437,997	(1)	Total Expenditures			
<i>Non Spendable</i>				<i>Unassigned:</i>			
460 Non Spendable Fund Balance	78,512	78,512		422 Unassigned Fund Balance			
<i>Restricted/Reserved:</i>				Reconciliation of OPEB Revocable Trust			
452 OPEB Liab Not In Trust							
<i>Restricted</i>				<b>45 OPEB IRREVOCABLE TRUST FUND</b>			
464 Restricted Fund Balance	567,019	567,018	1	Total Revenue	35,876	35,876	
<i>Unassigned</i>				Total Expenditures	54,988	54,988	
463 Unassigned Fund Balance				<i>Unassigned:</i>			
Reconciliation of Food Service	3,609,447	3,609,446	1	422 Unassigned Fund Balance	944,530	944,530	
				Reconciliation of OPEB Irrevocable Trust	1,035,394	1,035,394	
<b>04 COMMUNITY SERVICE</b>							
Total Revenue	998,684	998,684		<b>47 OPEB DEBT SERVICE FUND</b>			
Total Expenditures	1,053,349	1,053,349		Total Revenue	230,937	230,938	(1)
<i>Non Spendable</i>				Total Expenditures	234,450	234,450	
460 Non Spendable Fund Balance				<i>Non Spendable</i>			
<i>Restricted/Reserved:</i>				460 Non Spendable Fund Balance			
426 \$25 Taconite				<i>Restricted</i>			
431 Community Education	274,376	274,377	(1)	425 Bond Refunding			
432 E.C.F.E.	40,611	40,610	1	464 Restricted Fund Balance	51,356	51,357	(1)
440 Teacher Development and Eval.				<i>Unassigned</i>			
444 School Readiness	115,933	115,933		463 Unassigned Fund Balance			
447 Adult Basic Education				Reconciliation of OPEB Debt Service	516,743	516,745	(2)
452 OPEB Liab Not In Trust							
<i>Restricted</i>							
464 Restricted Fund Balance	4,178	4,176	2				
<i>Unassigned</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	2,487,131	2,487,129	2				