

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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WADENA, MINNESOTA
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FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
GOVERNING BOARD
June 30, 2021

Chairperson	Russ VanDenheuvel	Bertha-Hewitt
Vice-Chairperson	Rod Thalmann	Henning
Clerk	Katie Howard	Menahga
Treasurer	Bruce Lund	Staples-Motley
Director	Charles Funk	Sebeka
Director	Barb Tumberg	Wadena-Deer Creek
Director	Scott Veronen	Verndale
Director	Jodi Hilmer	Browerville
Director	Chuck Wolf	Long Prairie-Grey Eagle
Executive Director	Eric Weber	

Superintendents:

Mitch Anderson	Perham-Dent *
Shane Tappe	Staples-Motley
Paul Brownlow	Verndale
Dave Fjeldheim	Sebeka
Eric Koep	Bertha-Hewitt
Jon Kringen	Long Prairie-Grey Eagle
Mike Malmberg	Pillager *
Blaine Novak	New York Mills *
Barry Olson	Henning
Scott Vedbraaten	Browerville
Kevin Wellen	Menahga
Lee Westrum	Wadena-Deer Creek
Terry Karger	Frazee-Vergas *

*denotes Associate Member Districts

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Freshwater Education District No. 6004
Wadena, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of Freshwater Education District No. 6004, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of Freshwater Education District No. 6004, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The governing board, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

November 10, 2021

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**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021**

This section of Freshwater Education District No. 6004's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for the 2020-2021 fiscal year include the following:

- The General fund balance decreased by \$641,758 during the 2020-2021 school year.

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 *fiduciary fund statement* provides information about the financial relationship in which the District acts solely as an agent for the benefit of others.

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 and community service fund budgets 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 they have 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 an indicator 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 the condition of school buildings and other facilities.

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021**

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. Federal and state formula aid finance most of these activities.

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as accounting for capital projects) 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 two 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 community service fund, which are considered to be major funds.

- **Fiduciary funds**: The District is the trustee, or custodian, for assets that belong to others. The District is responsible for ensuring that the assets reported in the funds are used only by those to whom the assets belong. The District's custodial activities (Health Reimbursement Arrangement Fund and Scholarships 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.

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021**

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was \$922,665 on June 30, 2021 (see details in Table A-1). This was a decrease of 59.1 percent from the prior year.

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

	<u>2021</u>	<u>2020</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 5,250,645	\$ 5,477,146	(4.1) %
Capital Assets	6,583,756	6,779,667	(2.9)
Total Assets	<u>11,834,401</u>	<u>12,256,813</u>	(3.4)
Deferred Outflows of Resources	<u>3,597,483</u>	<u>5,244,311</u>	(31.4)
Long-term Liabilities	7,776,602	6,570,821	18.4
Other Liabilities	1,752,192	1,342,900	30.5
Total Liabilities	<u>9,528,794</u>	<u>7,913,721</u>	20.4
Deferred Inflows of Resources	<u>4,980,425</u>	<u>7,331,315</u>	(32.1)
Net Position			
Net Investment in Capital Assets	6,583,756	6,779,667	(2.9)
Restricted	451,139	665,018	(32.2)
Unrestricted	<u>(6,112,230)</u>	<u>(5,188,597)</u>	(17.8)
Total Net Position	<u>\$ 922,665</u>	<u>\$ 2,256,088</u>	(59.1) %

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021**

Change in Net Position

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

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

	<u>2021</u>	<u>2020</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 4,756,102	\$ 4,979,715	(4.5) %
Operating Grants and Contributions	5,607,417	5,727,088	(2.1)
General Revenues			
Unrestricted State Aid	359,355	295,322	21.7
Unrestricted Investment Earnings	24,305	62,044	(60.8)
Other Sources	209,209	185,126	13.0
Total Revenues	<u>10,956,388</u>	<u>11,249,295</u>	(2.6)
Expenses			
Administration	609,977	712,668	(14.4)
District Support Services	192,596	143,144	34.5
Elementary & Secondary Regular Instruction	1,415,177	1,355,521	4.4
Vocational Education Instruction	332,185	257,882	28.8
Special Education Instruction	7,951,259	7,533,890	5.5
Community Education and Services	862,625	770,116	12.0
Instructional Support Services	373,328	509,259	(26.7)
Pupil Support Services	186,893	154,781	20.7
Sites and Buildings	240,572	448,703	(46.4)
Fixed Costs	24,615	23,659	4.0
Depreciation- Unallocated	100,584	98,389	2.2
Total Expenses	<u>12,289,811</u>	<u>12,008,012</u>	2.3
Change in Net Position	(1,333,423)	(758,717)	(75.7)
Net Position - Beginning	<u>2,256,088</u>	<u>3,014,805</u>	(25.2)
Net Position - Ending	<u>\$ 922,665</u>	<u>\$ 2,256,088</u>	(59.1) %

The District's total revenues were \$10,956,388 for the year ended June 30, 2021.

The total cost of all programs and services was \$12,289,811. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position \$1,333,423 over last year. For the year ended June 30, 2021, the net effect of the District's deferred inflows and outflows of resources and net pension

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021**

liability related to TRA and PERA decreased net position by \$460,637. For the year ended June 30, 2020, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by \$527,271.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

**Table A-3
Net Cost of Governmental Activities**

	Total Cost of Services		Total	Net Cost of Services		Total
	2021	2020	Percentage Change	2021	2020	Percentage Change
Expenses						
Administration	\$ 609,977	\$ 712,668	(14.4) %	\$ 258,735	\$ 370,065	(30.1) %
District Support Services	192,596	143,144	34.5	151,460	143,144	5.8
Elementary & Secondary						
Regular Instruction	1,415,177	1,355,521	4.4	130,399	(437,194)	129.8
Vocational Education Instruction	332,185	257,882	28.8			
Special Education Instruction	7,951,259	7,533,890	5.5	814,393	331,576	145.6
Community Education and Services	862,625	770,116	12.0	(13,729)	(39,821)	65.5
Instructional Support Services	373,328	509,259	(26.7)	264,172	400,714	(34.1)
Pupil Support Services	186,893	154,781	20.7	62,770	63,595	(1.3)
Sites and Buildings	240,572	448,703	(46.4)	132,893	347,082	(61.7)
Fixed Costs	24,615	23,659	4.0	24,615	23,659	4.0
Depreciation- Unallocated	100,584	98,389	2.2	100,584	98,389	2.2
	<u>\$ 12,289,811</u>	<u>\$ 12,008,012</u>	2.3 %	<u>\$ 1,926,292</u>	<u>\$ 1,301,209</u>	48.0 %

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-4
Major Funds**

	Fund Balance		Increase	Percentage
	2021	2020	(Decrease)	Increase (Decrease)
Governmental Funds				
General	\$ 3,252,127	\$ 3,893,885	\$ (641,758)	(16.5) %
Community Service	246,326	240,361	5,965	2.5

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021**

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-5 presents a summary of general fund revenue.

**Table A-5
General Fund Revenue**

	<u>2021</u>	<u>2020</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Interest Earnings	\$ 24,450	\$ 58,947	\$ (34,497)	\$ (58.5) %
Other	4,070,260	4,340,873	(270,613)	(6.2)
State Sources	2,960,053	3,058,966	(98,913)	(3.2)
Federal Sources	2,992,151	2,960,884	31,267	1.1
Other	7,053	2,878	4,175	145.1
Total General Fund Revenue	<u>\$ 10,053,967</u>	<u>\$ 10,422,548</u>	<u>\$ (368,581)</u>	(3.5) %

Total general fund revenue decreased by \$368,581 or 3.5 percent from the previous year.

Table A-6 presents a summary of general fund expenditures.

**Table A-6
General Fund Expenditures**

	<u>2021</u>	<u>2020</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 6,589,542	\$ 6,156,710	\$ 432,832	7.0 %
Employee Benefits	1,833,183	1,765,431	67,752	3.8
Purchased Services	1,806,315	2,004,373	(198,058)	(9.9)
Supplies and Materials	283,209	231,714	51,495	22.2
Capital Expenditures	117,679	428,426	(310,747)	(72.5)
Other Expenditures	87,297	214,833	(127,536)	(59.4)
Total General Fund Expenditures	<u>\$ 10,717,225</u>	<u>\$ 10,801,487</u>	<u>\$ (84,262)</u>	(0.8) %

Total general fund expenditures decreased by \$84,262 or 0.8 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in April 2020. During the year ended June 30, 2021, the District revised its budget.

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2021**

The District's budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$1,242,198 and the actual results for the year show a deficit of \$641,758.

Capital Assets

Capital Assets

Note 3 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2021. Additions totaling \$64,521 consisted of a vehicle, air conditioning unit, a furnace, and a printer. The District also had disposals of \$50,437 which consisted of a vehicle, server, printer, and phone system.

Factors Bearing on the District's Future

The District has been serving nine (9) member districts and four (4) associate districts in a variety of capacities with a student enrollment of 10,946.

Freshwater Education District No. 6004's member districts, for the most part, are seeing their enrollment levels remain level.

The District's special education programs will continue to increase as the response to member school district needs. Nationally, the special student needs population is increasing annually due to environmental, social, chemical, and behavioral trends. Likewise, the ALC programs have continued an annual trend of increased student attendance. For the past several years the Freshwater ALC department has been remotely supporting greater Minnesota school districts by providing opportunities for these non-member districts to access credit recovery (grades 9-12) and targeted services (K-8) extended time revenue. The Freshwater adult basic education (ABE) program funds continue to flow through the St. Cloud School District No. 742 so as to enhance the allocation. Freshwater has and will continue to host and coordinate many other cooperative programs like ABE, Vocational Rehabilitation, Carl Perkins, Todd County Collaborative, etc.

For many years, this education district has relied heavily on its members utilizing their lease-levy authority to cover the costs of facility spaces for Freshwater ALC, special education Level IV classrooms, and itinerant-teacher office space. In the year 2009, Freshwater was paying several leases in the total amount of nearly \$210,000. Currently, due to space and rate reductions, Freshwater is paying about \$46,300 annually. Freshwater owns its building that has a special education level IV classroom and office areas with a single location for centralized administrative services.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Freshwater Education District No. 6004, 2222 Industrial Dr., Wadena, MN 56482.

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2021

GOVERNMENTAL ACTIVITIES

ASSETS

Cash and Investments	\$ 2,995,375
Accounts Receivable	91,184
Interest Receivable	1,960
Due From MN School Districts	590,760
Due From Department of Education	642,742
Due From Federal Govt. - DOE	900,251
Due From Federal Govt.	13,973
Due from Other Governments	13,953
Prepaid Expenses	447
Capital Assets	
Land	61,579
Capital Assets, Net of Accumulated Depreciation	<u>6,522,177</u>

TOTAL ASSETS

11,834,401

DEFERRED OUTFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan	3,410,452
Other Postemployment Benefit	<u>187,031</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES

3,597,483

LIABILITIES

Accounts Payable	43,101
Salaries Payable	722,062
Payroll Deductions	544,737
Due to Other Govt Units	2,332
Due to Other MN Districts	330,960
Unearned Revenue	109,000
Long-Term Liabilities	
Vacation Payable	40,953
Total Other Postemployment Benefit Liability	526,370
Net Pension Liability	<u>7,209,279</u>
Total Long-Term Liabilities	<u>7,776,602</u>

TOTAL LIABILITIES

9,528,794

DEFERRED INFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan	4,934,496
Other Postemployment Benefit	<u>45,929</u>

TOTAL DEFERRED INFLOWS OF RESOURCES

4,980,425

NET POSITION

Net Investment in Capital Assets	6,583,756
Restricted	
Basic Skills	112,069
Medical Assistance	8,381
Other	84,363
Community Education	36,986
ECFE	93,904
School Readiness	73,389
Adult Basic Education	17,364
Community Service	24,683
Unrestricted	<u>(6,112,230)</u>

TOTAL NET POSITION

\$ 922,665

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Administration	\$ 609,977	\$ 351,203	\$ 39	\$ (258,735)
District Support Services	192,596	31,468	9,668	(151,460)
Elementary & Secondary				
Regular Instruction	1,415,177	877,075	407,703	(130,399)
Vocational Education Instruction	332,185		332,185	
Special Education Instruction	7,951,259	2,342,517	4,794,349	(814,393)
Community Education and Services	862,625	876,354		13,729
Instructional Support Services	373,328	64,544	44,612	(264,172)
Pupil Support Services	186,893	122,404	1,719	(62,770)
Sites and Buildings	240,572	90,537	17,142	(132,893)
Fixed Costs	24,615			(24,615)
Depreciation- Unallocated	100,584			(100,584)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 12,289,811	\$ 4,756,102	\$ 5,607,417	(1,926,292)
GENERAL REVENUES				
				359,355
Unrestricted State Aid				24,305
Unrestricted Investment Earnings				208,395
Other General Revenue				814
Gain on Sale of Capital Asset				
TOTAL GENERAL REVENUES				592,869
Change in Net Position				(1,333,423)
Net Position - Beginning				2,256,088
Net Position - Ending				\$ 922,665

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2021

	General Fund	Community Service Fund	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 2,725,034	\$ 270,341	\$ 2,995,375
Accounts Receivable	91,184		91,184
Interest Receivable	1,960		1,960
Due From MN School Districts	526,498	64,262	590,760
Due From Department of Education	642,742		642,742
Due From Federal Govt. - DOE	900,251		900,251
Due From Federal Govt.	13,973		13,973
Due From Other Governments	13,953		13,953
Prepaid Expenses	447		447
TOTAL ASSETS	\$ 4,916,042	\$ 334,603	\$ 5,250,645
LIABILITIES			
Accounts Payable	\$ 38,622	\$ 4,479	\$ 43,101
Salaries Payable	638,264	83,798	722,062
Due to Other Govt Units	2,332		2,332
Due to Other MN Districts	330,960		330,960
Payroll Deductions	544,737		544,737
Unearned Revenue	109,000		109,000
TOTAL LIABILITIES	1,663,915	88,277	1,752,192
FUND BALANCES			
Restricted for Basic Skills	112,069		112,069
Restricted for Medical Assistance	8,381		8,381
Restricted for Other	84,363		84,363
Restricted for Community Education		36,986	36,986
Restricted for ECFE		93,904	93,904
Restricted for School Readiness		73,389	73,389
Restricted for Adult Basic Education		17,364	17,364
Restricted for Community Service		24,683	24,683
Committed for Severance	338,647		338,647
Committed for Facility Improvements	332,816		332,816
Assigned for Copier Replacement	20,542		20,542
Assigned for Wellness	2,542		2,542
Unassigned	2,352,767		2,352,767
TOTAL FUND BALANCES	3,252,127	246,326	3,498,453
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,916,042	\$ 334,603	\$ 5,250,645

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004

WADENA, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2021

Total fund balances - governmental funds \$ 3,498,453

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	7,748,782
Less accumulated depreciation	(1,165,026)

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.

3,597,483

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Vacation Payable	(40,953)
Total Other Postemployment Benefit Liability	(526,370)
Net Pension Liability	(7,209,279)

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.

(4,980,425)

Net position - governmental activities \$ 922,665

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2021

	General Fund	Community Service Fund	Total Governmental Funds
REVENUES			
Other Local & County Revenues	\$ 4,094,710	\$ 887,039	\$ 4,981,749
Revenue From State Sources	2,960,053		2,960,053
Revenue From Federal Sources	2,992,151		2,992,151
Sale/Other Conversion of Asset	7,053		7,053
TOTAL REVENUES	10,053,967	887,039	10,941,006
EXPENDITURES			
Current			
Administration	597,365		597,365
District Support Services	181,484		181,484
Elementary & Secondary Regular Instruction	1,413,499		1,413,499
Vocational Instruction	330,868		330,868
Special Education Instruction	7,410,711		7,410,711
Community Education and Services		856,748	856,748
Instructional Support Services	324,810		324,810
Pupil Support Services	179,740		179,740
Sites and Buildings	136,454		136,454
Fixed Costs	24,615		24,615
Capital Outlay	117,679	4,326	122,005
TOTAL EXPENDITURES	10,717,225	861,074	11,578,299
Revenues Over (Under) Expenditures	(663,258)	25,965	(637,293)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Asset	1,500		1,500
Transfer In	20,000		20,000
Transfer Out		(20,000)	(20,000)
TOTAL OTHER FINANCING SOURCES (USES)	21,500	(20,000)	1,500
Net Change in Fund Balances	(641,758)	5,965	(635,793)
Fund Balances - Beginning	3,893,885	240,361	4,134,246
Fund Balances - Ending	<u>\$ 3,252,127</u>	<u>\$ 246,326</u>	<u>\$ 3,498,453</u>

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004

WADENA, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021**

Total net change in fund balances - governmental funds \$ (635,793)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlay	64,251
Depreciation expense	(259,476)

The net book value of assets disposed of decreases net position. (686)

Change in net pension liability. (1,078,259)

Changes in deferred outflows and inflows of resources related to net pension liability. 617,622

Changes in deferred outflows and inflows of resources related to other postemployment benefit liability. 86,440

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.)

Other postemployment benefits	(126,762)
Vacation payable	(760)

Change in net position - governmental activities \$ (1,333,423)

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION – CUSTODIAL FUNDS
June 30, 2021

	Health Reimbursement Arrangement	Scholarships	Total Custodial Funds
ASSETS			
Cash and Investments	\$ 1,042,087	\$ 27,759	\$ 1,069,846
TOTAL ASSETS	<u>1,042,087</u>	<u>27,759</u>	<u>1,069,846</u>
LIABILITIES			
Other Payables	<u>10,268</u>		<u>10,268</u>
TOTAL LIABILITIES	<u>10,268</u>		<u>10,268</u>
NET POSITION	<u>\$ 1,031,819</u>	<u>\$ 27,759</u>	<u>\$ 1,059,578</u>

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – CUSTODIAL FUNDS
For the Year Ended June 30, 2021

	Health Reimbursement Arrangement	Scholarships	Total Custodial Funds
ADDITIONS			
HRA Contributions	\$ 200,613	\$	\$ 200,613
Interest Income		145	145
TOTAL ADDITIONS	<u>200,613</u>	<u>145</u>	<u>200,758</u>
DEDUCTIONS			
HRA Claims	221,711		221,711
Miscellaneous		2,000	2,000
TOTAL DEDUCTIONS	<u>221,711</u>	<u>2,000</u>	<u>223,711</u>
Change in Net Position	(21,098)	(1,855)	(22,953)
Net Position - Beginning	<u>1,052,917</u>	<u>29,614</u>	<u>1,082,531</u>
Net Position - End of Year	<u>\$ 1,031,819</u>	<u>\$ 27,759</u>	<u>\$ 1,059,578</u>

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Freshwater Education District No. 6004 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a nine-member board appointed by the school boards of the nine-member school districts. The financial statements of Freshwater Education District No. 6004 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. These financial statements also conform to the Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota school districts.

The District provides coordination of member district and education district programs for handicapped pupils, gifted and talented pupils, secondary vocational education, improved learning, community education, early childhood family education, career education, and low incidence academic programs in 13 school districts: Bertha-Hewitt, Browerville, Frazee-Vergas, Henning, Long Prairie-Grey Eagle, Menahga, New York Mills, Perham-Dent, Pillager, Sebeka, Staples-Motley, Verndale, and Wadena-Deer Creek. Administrative offices are located in Staples and Wadena.

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 except for the custodial funds. The custodial funds are only reported in the statement of fiduciary net position at the fund financial statement level.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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.

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

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 and custodial funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The custodial funds are presented in the fiduciary fund financial statements. The District's only fiduciary funds are custodial funds for its health reimbursement arrangement and scholarships. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the District-wide statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. 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. 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. Descriptions of the major funds included in this report are as follows:

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

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.

Special Revenue Fund:

Community Service Fund - Special Revenue Funds are used to account for revenues designated to finance particular activities, and the related expenditures. The purpose of the Community Service Fund is for Early Childhood Family Education, Adult Basic Education, School Readiness, Preschool Screening, and other community programs. The majority of revenues in the Community Service Fund come from other Minnesota school districts.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

Fiduciary Funds

Custodial Fund – The District is the trustee, or custodian, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

All of the District's custodial activities are reported in separate statements of fiduciary net position and changes in net position. We excluded these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

E. Specific Account Information

Cash and Investments – 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: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable market inputs that are not corroborated by market data

Capital Assets – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at 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.

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

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 25 to 50 years for buildings and 5 to 20 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.

Vacation and Sick Leave – Employees are granted vacation of five to twenty days per year depending on employment classification. Accumulated unused vacation in excess of 100 hours is forfeited at the end of the fiscal year. The total estimated liability for vacation pay as of June 30, 2021 and 2020 was \$40,953 and \$40,193, respectively. The liability for all employees consists of twenty individuals as of June 30, 2021 and 2020.

Sick leave is earned up to twelve days per year. Sick leave days accumulate to a maximum of 120 days. Sick leave accumulated beyond 120 days is annually credited to a subaccount within the employee's HRA account to be used for reimbursement of expenses after their employment with Freshwater Education District No. 6004. The maximum amount that the District will pay each employee will be capped at a lifetime maximum of \$3,455, \$3,500 or \$4,225, depending on the contract. In 2021, \$990 was credited for two individuals.

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.

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.

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

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

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate 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 net 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 two types of items that qualify under this category. *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits*, which represent actuarial differences within PERA and TRA pension plans and other postemployment benefit plans.

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

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

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

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose, but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing board delegates the authority.

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

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.

A majority vote of the Freshwater Education District No. 6004’s board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts actually committed can be determined in the subsequent fiscal year.

The District’s board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The board also delegates the power to assign fund balances to the executive director. Assignments so made shall be reported to the District Board on a monthly basis, either separately or as part of ongoing reporting by the assigning party if other than the District Board. The action to assign a fund balance may be taken after the end of the fiscal year.

The District will strive to maintain a minimum unassigned general fund balance of 20% of the annual General Fund expenditure budget.

F. Use of Estimates

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

NOTE 2 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank. Investments are valued at amortized costs. The District considers certificates of deposit to be cash.

The District’s interest income for the year ended June 30, 2021, was \$24,450.

The pooled cash and investment accounts are comprised of the following:

	Governmental Activities	Fiduciary Funds	Total
Cash	\$ 978,515	\$ 127,453	\$ 1,105,968
Investments	2,016,860	942,393	2,959,253
Total	<u>\$ 2,995,375</u>	<u>\$ 1,069,846</u>	<u>\$ 4,065,221</u>

As of June 30, 2021, the District’s investments were in the Minnesota School District Liquid Asset Fund external investment pool.

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

<u>Investment</u>	<u>Fair Value (Level 1)</u>
Minnesota School District Liquid Asset Fund	\$2,959,253

The Minnesota School District Liquid Asset Fund is a common law trust 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 is 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 in the pool 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.

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

- (a) Direct obligations or obligations guaranteed or insured issued 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 AAA by Standard & Poor's.

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

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2021, the District was not exposed to custodial credit risk.

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

NOTE 3 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 61,579	\$ _____	\$ _____	\$ 61,579
Total Capital Assets, Not Being Depreciated	<u>61,579</u>	<u>_____</u>	<u>_____</u>	<u>61,579</u>
Capital Assets, Being Depreciated:				
Site Improvements	510,011			510,011
Buildings	6,284,717	19,649		6,304,366
Equipment	<u>878,661</u>	<u>44,602</u>	<u>50,437</u>	<u>872,826</u>
Total Capital Assets, Being Depreciated	<u>7,673,389</u>	<u>64,251</u>	<u>50,437</u>	<u>7,687,203</u>
Less Accumulated Depreciation For:				
Site Improvements	38,251	25,501		63,752
Buildings	453,710	158,852		612,562
Equipment	<u>463,340</u>	<u>75,123</u>	<u>49,751</u>	<u>488,712</u>
Total Accumulated Depreciation	<u>955,301</u>	<u>259,476</u>	<u>49,751</u>	<u>1,165,026</u>
Total Capital Assets, Being Depreciated, Net	<u>6,718,088</u>	<u>(195,225)</u>	<u>686</u>	<u>6,522,177</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,779,667</u>	<u>\$ (195,225)</u>	<u>\$ 686</u>	<u>\$ 6,583,756</u>

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

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Administration	\$ 5,804
District Support Services	11,112
Special Education Instruction	22,761
Community Education and Services	1,551
Instructional Support Services	17,557
Pupil Support Services	7,153
Sites and Buildings	<u>92,954</u>
	158,892
Unallocated	100,584
Total Depreciation Expense	<u>\$ 259,476</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 employees of the District. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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

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

Benefit increases are provided to benefit recipients each January. The postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least

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1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2021, were \$119,003. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2021, the District reported a liability of \$1,247,055 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 \$38,560. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0208% at the end of the measurement period and 0.0197% for the beginning of the period.

District's proportionate share of net pension liability	\$ 1,247,055
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>38,560</u>
Total	<u>\$ 1,285,615</u>

For the year ended June 30, 2021, the District recognized pension expense of \$63,331 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized \$3,356 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 10,766	\$ 4,718
Difference between projected and actual investment earnings	27,279	
Changes in actuarial assumptions		44,785
Changes in proportion	55,668	
Contributions paid to PERA subsequent to the measurement date	119,003	
Total	<u>\$ 212,716</u>	<u>\$ 49,503</u>

\$119,003 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2022	\$ (46,292)
2023	19,240
2024	41,132
2025	30,130

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on Pub-2010 Generational Employee Mortality table for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

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

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

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.

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

Changes in Plan Provisions:

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

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

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

Discount Rate – The discount rate used to measure the total pension liability in 2020 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

District Proportionate Share of NPL		
1% Decrease	Current	1% Increase
(6.5%)	(7.5%)	(8.5%)
\$ 1,998,597	\$ 1,247,055	\$ 627,094

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

B. Teachers Retirement Association

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

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

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

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

Tier I Benefits:

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

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With these provisions:

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

or

Tier II Benefits:

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

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

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

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

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

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

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

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Employer contributions reported in TRA's ACFR	<i>in thousands</i>
Statement of Changes in Fiduciary Net Position	\$ 425,223
Add employer contributions not related to future contribution efforts	(56)
Deduct TRA's contributions not included in allocation	<u>(508)</u>
Total employer contributions	424,659
Total non-employer contributions	<u>35,587</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$ 460,246</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 Assumptions - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

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

Actuarial Assumptions:

Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption

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

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

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Geometric Mean)</u>
Domestic Equity	35.50%	5.10%
International Equity	17.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
Unallocated Cash	2.00%	0.00%

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

Changes in actuarial assumptions since the 2018 valuation:

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

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2020 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

Net Pension Liability - On June 30, 2021, the District reported a liability of \$5,962,224 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0807% at the end of the measurement period and 0.0791% for the beginning of the year.

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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	\$ 5,962,224
State's proportionate share of the net pension liability associated with the District	\$ 499,864

For the year ended June 30, 2021, the District recognized pension expense of \$1,003,633. It also recognized \$45,791 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 119,565	\$ 87,137
Net difference between projected and actual earnings on plan inv.	114,232	
Changes in actuarial assumptions	1,996,404	4,695,442
Changes in proportion	535,415	102,414
Contributions paid to TRA subsequent to the measurement date	432,120	
Total	<u>\$ 3,197,736</u>	<u>\$ 4,884,993</u>

\$432,120 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2022	\$ 251,905
2023	(1,557,519)
2024	(1,085,172)
2025	219,537
2026	51,872

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

Sensitivity of the Net Pension Liability (NPL) to Changes in the Discount Rate		
<u>1% Decrease (6.5%)</u>	<u>Current (7.5%)</u>	<u>1% Increase (8.50%)</u>
\$ 9,128,102	\$ 5,962,224	\$ 3,353,701

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

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

The District recognized total pension expense of \$1,066,964 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. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

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. The District provides full single coverage healthcare for a retiring principal or teacher until Medicare eligibility. All principals and teachers have a service requirement of three years.

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.

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

Inactive plan members or beneficiaries currently receiving benefit payments	9
Active plan members	117
Total Members	<u>126</u>

Total OPEB Liability – The District's total OPEB liability of \$526,370 was measured as of June 30, 2020 and was determined by an actuarial valuation as of June 30, 2020.

Actuarial Assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	Based on most recently disclosed assumption for the pension plan in which the employee participates.
Healthcare Cost Trend Rates	6.2 percent decreasing to 4.0 percent by 2076.

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Mortality rates were based on the RP-2014 Mortality Tables with projected mortality improvements based on scale MP-2015, and other adjustments.

The discount rate is based on the estimated yield of 20-year AA-rated municipal bonds. The overall single discount rate is 2.45%.

In the June 30, 2020 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2020	\$ 399,608
Changes for the year:	
Service Cost	24,633
Interest Cost	12,321
Differences Between Expected and Actual Experience	104,994
Changes in Assumptions	45,991
Employer Contributions	(61,177)
Net Changes	<u>126,762</u>
Balance at 6/30/2021	<u>\$ 526,370</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.45 percent) or one percentage point higher (3.45 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (1.45%)	Current (2.45%)	1% Increase (3.45%)
\$ 543,131	\$ 526,370	\$ 509,162

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.2 percent decreasing to 3.0 by 2076) or one percentage point higher (7.2 percent decreasing to 5.0 by 2076) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.2% decreasing to 3.0% by 2076)	(6.2% decreasing to 4.0% by 2076)	(7.2% decreasing to 5.0% by 2076)
\$ 513,593	\$ 526,370	\$ 541,019

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OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2021, the District recognized OPEB expense of \$50,093. At June 30, 2021, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 89,037	\$ 44,526
Changes in actuarial assumptions	55,981	1,403
Employer contributions paid subsequent to the measurement date	42,013	
Total	<u>\$ 187,031</u>	<u>\$ 45,929</u>

\$42,013 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>OPEB Expense Amount</u>
2022	\$ 13,492
2023	14,895
2024	14,895
2025	19,238
2026	23,266
Thereafter	13,303

NOTE 6 LONG-TERM LIABILITIES

Changes in the District’s long-term liabilities for the year ended June 30, 2021 are as follows:

Summary of Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Vacation Payable	\$ 40,193	\$ 760	\$	\$ 40,953	\$
Total Long-Term Liabilities	<u>\$ 40,193</u>	<u>\$ 760</u>	<u>\$</u>	<u>\$ 40,953</u>	<u>\$</u>

The vacation payable is generally liquidated by the general fund.

NOTE 7 INTERFUND TRANSFERS

The composition of interfund transfers as of June 30, 2021 are as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Community Service	\$20,000

The purpose of the transfer is to help with expenses related to the COVID-19 pandemic.

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 8 HEALTH REIMBURSEMENT ARRANGEMENT

The District has a health reimbursement arrangement for its contracted employees. The plan year begins January 1 and runs to December 31. The benefits payable under this plan are eligible for exclusion from the gross income of participants as provided by Sections 105(b) and 106 of the Internal Revenue Code. Only expenses that meet the definition of “medical care” within Section 213(d) of the Internal Revenue Code may be reimbursed under the plan. Claims for eligible health care expenses must first be submitted for reimbursement to the flexible spending account under the District’s cafeteria plan. If that claim is not fully reimbursed, the balance may then be submitted under this plan.

NOTE 9 FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a “cafeteria plan” under Section 125 of the Internal Revenue Code. Each employee covered by a written contract or employee policy is eligible to participate. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits. The plan provides employees the choice of participating in a dependent care expense reimbursement account or health care expense reimbursement plan. Payments are made from the plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant through a third-party administrator.

Before the beginning of the plan year, which is from January 1 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions to the plan, whether or not such contributions have been made. Any balance remaining in the participant’s health care expense reimbursement fund or dependent care assistance fund as of the end of each plan year shall be forfeited, unless the participant had made a claim for such plan year, in writing, which has been denied or is pending.

NOTE 10 403(B) AND 457 PLANS

The District offers both a 403(b) Plan with an employer matching element and a 457 Deferred Compensation Plan. Eligibility and formulas for employer contributions are based on applicable employment agreements to which an employee is subject. Employees must have completed three years of continuous service of at least .75 FTE to the District in order to receive the District’s matching contribution. Under one of the employee group contracts, the employees began to accumulate their years of eligible service starting December 31, 2005 and, in the other two groups, years of service began June 30, 2007. Forty-six employees were participating during the year ended June 30, 2021; the District’s matching contributions totaled \$31,502.

NOTE 11 OPERATING AGREEMENTS

The District has entered into certain operating agreements; however, the District has the right to cancel these leases at the end of any fiscal year if the Board of Directors is not authorized by law to appropriate or does not appropriate monies sufficient to pay the rental payments. They are as follows:

The District leases from Independent School District No. 2753, Long Prairie-Grey Eagle Public Schools, the premises used for the Area Learning Center. The 24-month lease commenced July 1, 2019. The annual commitment under the lease is \$14,220. The District must provide custodial services during the term of the lease.

The District leases from Central Lakes College in Staples, MN, the premises used for the Area Learning Center. The 12-month lease commenced July 1, 2017. The current annual commitment under the lease is

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

\$28,175. The lease shall end June 30, 2022 unless it is mutually agreed upon by the two parties to extend the lease.

The District leases from Independent School District No. 821, Menahga Public School, the premises used for the Area Learning Center. The 12-month lease commenced October 1, 2013. The annual commitment under the lease is \$1,920.

The District leases from Independent School District No. 116, Pillager Public School, the premises used for the Area Learning Center. The 12-month lease commenced July 1, 2019. The annual commitment under the lease is \$1,920.

NOTE 12 CONTINGENCIES

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

NOTE 13 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.

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.

The District's workers compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience, workers compensation rates and salaries for the year are known. The final premium adjustment was recorded in the year the adjustment was made.

NOTE 14 JOINT VENTURES

In 2003 Tri County Hospital and the District jointly planned and designed the purchase of a shared wide area network (WAN) to provide data, voice and video services to the communities of Wadena, Sebeka, Menahga, Verndale, Bertha, Deer Creek and Henning. In 2005, the District negotiated an additional agreement with Lakewood Health System in Staples to expand the WAN to the east and offer connections to additional communities including Pillager, Motley, Staples, Browerville, Clarissa and Eagle Bend. A service level agreement for the period July 1, 2018 to June 30, 2021 provides that the District continue to manage/maintain the fiber connections between facilities and agrees to allow for shared bandwidth between participating entities. The agreement specifies each of the three entity's share of equipment maintenance costs by location. Lakewood Health System opted out of the agreement effective March 15, 2018. The two remaining entities signed another service level agreement for the period July 1, 2021 to June 30, 2024. Separate financial statements for the venture are not prepared.

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 15 NEW PRONOUNCEMENTS

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

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

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

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

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

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and*

FRESHWATER EDUCATION DISTRICT NO. 6004
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June 30, 2021

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

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

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Other Local & County Revenues	\$ 4,039,247	\$ 3,791,791	\$ 4,094,710	\$ 302,919
Revenue From State Sources	2,548,567	2,617,047	2,960,053	343,006
Revenue From Federal Sources	3,292,422	3,061,748	2,992,151	(69,597)
Sale/Other Conversion of Asset	4,000	5,800	7,053	1,253
TOTAL REVENUES	9,884,236	9,476,386	10,053,967	577,581
EXPENDITURES				
Current				
Administration	607,029	604,923	597,365	(7,558)
District Support Services	157,996	185,993	181,484	(4,509)
Elementary & Secondary Regular Instruction	1,817,524	1,127,879	1,413,499	285,620
Vocational Education Instruction	366,243	330,869	330,868	(1)
Special Education Instruction	7,675,503	7,680,303	7,410,711	(269,592)
Instructional Support Services	332,178	340,998	324,810	(16,188)
Pupil Support Services	178,862	196,802	179,740	(17,062)
Sites and Buildings	120,948	130,579	136,454	5,875
Fixed Costs	25,500	25,280	24,615	(665)
Capital Outlay	177,261	114,958	117,679	2,721
TOTAL EXPENDITURES	11,459,044	10,738,584	10,717,225	(21,359)
Revenues Over (Under) Expenditures	(1,574,808)	(1,262,198)	(663,258)	598,940
OTHER FINANCING SOURCES				
Sale of Capital Asset			1,500	1,500
Transfer In		20,000	20,000	
TOTAL OTHER FINANCING SOURCES		20,000	21,500	1,500
Net Change in Fund Balances	(1,574,808)	(1,242,198)	(641,758)	600,440
Fund Balances - Beginning	3,893,885	3,893,885	3,893,885	
Fund Balances - Ending	<u>\$ 2,319,077</u>	<u>\$ 2,651,687</u>	<u>\$ 3,252,127</u>	<u>\$ 600,440</u>

See Notes to the Required Supplementary Information

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE COMMUNITY SERVICE FUND
For the Year Ended June 30, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
REVENUES				
Other Local & County Revenues	\$ 881,385	\$ 901,930	\$ 887,039	\$ (14,891)
TOTAL REVENUES	<u>881,385</u>	<u>901,930</u>	<u>887,039</u>	<u>(14,891)</u>
EXPENDITURES				
Current				
Community Education and Services	869,363	912,286	856,748	(55,538)
Capital Outlay	<u>6,577</u>	<u>10,001</u>	<u>4,326</u>	<u>(5,675)</u>
TOTAL EXPENDITURES	<u>875,940</u>	<u>922,287</u>	<u>861,074</u>	<u>(61,213)</u>
Revenues Over (Under) Expenditures	5,445	(20,357)	25,965	46,322
OTHER FINANCING USES				
Transfer Out		<u>(20,000)</u>	<u>(20,000)</u>	
TOTAL OTHER FINANCING USES		<u>(20,000)</u>	<u>(20,000)</u>	
Net Change in Fund Balances	5,445	(40,357)	5,965	46,322
Fund Balances - Beginning	<u>240,361</u>	<u>240,361</u>	<u>240,361</u>	
Fund Balances - Ending	<u>\$ 245,806</u>	<u>\$ 200,004</u>	<u>\$ 246,326</u>	<u>\$ 46,322</u>

See Notes to the Required Supplementary Information

FRESHWATER EDUCATION DISTRICT NO. 6004

WADENA, MINNESOTA

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Last 10 Years

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Total OPEB Liability				
Service Cost	\$ 20,634	\$ 18,942	\$ 21,778	\$ 24,633
Interest	15,204	17,254	14,871	12,321
Differences Between Expected and Actual Experience		(82,692)		104,994
Changes in Assumptions	(8,427)	26,233	4,123	45,991
Benefit Payments	<u>(80,159)</u>	<u>(60,655)</u>	<u>(60,401)</u>	<u>(61,177)</u>
Net Change in Total OPEB Liability	(52,748)	(80,918)	(19,629)	126,762
Total OPEB Liability - Beginning	<u>552,903</u>	<u>500,155</u>	<u>419,237</u>	<u>399,608</u>
Total OPEB Liability - Ending	<u>\$ 500,155</u>	<u>\$ 419,237</u>	<u>\$ 399,608</u>	<u>\$ 526,370</u>
Covered Payroll	\$ 4,265,960	\$ 4,327,586	\$ 5,250,322	\$ 6,760,653
District's Total OPEB Liability as a Percentage of a Covered Payroll	11.72%	9.69%	7.61%	7.79%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

See Notes to the Required Supplementary Information

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
Last 10 Years

	<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Statutorily Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Statutorily Required</u> <u>Contributions</u>	<u>Contribution Deficiency</u> <u>(Excess)</u>	<u>District's Covered</u> <u>Payroll</u>	<u>Contributions as a</u> <u>Percentage of Covered</u> <u>Payroll</u>
PERA						
	2015	\$ 83,647	\$ 83,647	\$	1,151,702	7.26 %
	2016	87,637	87,637		1,192,818	7.35
	2017	93,533	93,533		1,267,876	7.38
	2018	94,724	94,724		1,265,720	7.48
	2019	104,437	104,437		1,392,543	7.50
	2020	113,536	113,536		1,518,668	7.48
	2021	119,003	119,003		1,586,702	7.50
TRA						
	2015	\$ 228,620	\$ 228,620	\$	3,266,005	7.00 %
	2016	276,961	276,961		3,692,813	7.50
	2017	293,950	293,950		3,919,333	7.50
	2018	311,257	311,257		4,150,098	7.50
	2019	344,604	344,604		4,454,726	7.74
	2020	381,738	381,738		4,800,138	7.95
	2021	432,120	432,120		5,293,123	8.16

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

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

See Notes to the Required Supplementary Information

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
Last 10 Years

<u>Fiscal Year Ended June 30</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)</u>	<u>Total</u>	<u>District's Covered Payroll</u>	<u>District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
PERA							
2014	0.0220 %	\$ 1,033,450	\$	\$ 1,033,450	\$ 1,151,702	89.73 %	78.70 %
2015	0.0202	1,046,869		1,046,869	1,151,702	90.90	78.19
2016	0.0201	1,632,026	21,354	1,653,380	1,192,818	136.82	68.90
2017	0.0196	1,251,251	15,737	1,266,988	1,267,876	98.69	75.90
2018	0.0196	1,087,328	35,591	1,122,919	1,265,720	85.91	79.53
2019	0.0197	1,089,169	33,832	1,123,001	1,392,543	78.21	80.23
2020	0.0208	1,247,055	38,560	1,285,615	1,518,668	82.12	79.06
TRA							
2014	0.0715 %	\$ 3,294,669	\$ 231,685	\$ 3,526,354	\$ 3,266,005	100.88 %	81.50 %
2015	0.0728	4,503,400	552,185	5,055,585	3,266,005	137.89	76.80
2016	0.0753	17,961,847	1,803,711	19,765,558	3,692,813	486.40	44.88
2017	0.0771	15,390,559	1,488,583	16,879,142	3,919,333	392.68	51.57
2018	0.0754	4,737,373	445,030	5,182,403	4,150,098	114.15	78.07
2019	0.0791	5,041,851	446,188	5,488,039	4,454,726	113.18	78.21
2020	0.0807	5,962,224	499,864	6,462,088	4,800,138	124.21	75.48

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

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

See Notes to the Required Supplementary Information

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

NOTE 1 BUDGETARY DATA

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

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

NOTE 2 DEFINED BENEFIT PLANS

PERA

2020 Changes

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

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

2019 Changes

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

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

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

2018 Changes

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

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

2017 Changes

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

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

2016 Changes

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

2015 Changes

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

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

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021**

TRA

Changes in Actuarial Assumptions Since the 2016 Valuation:

- The Cost of Living Adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Changes in actuarial assumptions since the 2017 valuation:

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

Changes in actuarial assumptions since the 2018 valuation:

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

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021**

contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Changes since the prior valuation:

Plan Changes: Retiree premiums were updated to current levels.

Assumption Changes:

- The discount rate was changed from 3.13% to 2.45% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
 - Medical per capita claim costs were updated to reflect recent experience, including an adjustment to reflect age/gender based risk scores published by the Society of Actuaries.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2017 PERA General Employees Retirement Plan and 7/1/2017 Teachers Retirement Association valuations to the rates used in the 7/1/2019 valuations.
- The percent of future classified retirees eligible for an explicit subsidy assumed to elect coverage at retirement changed from 0% to 25% to reflect recent plan experience.
- The percent of future retirees assumed to elect spouse coverage at retirement changed from 80% to 15% to reflect recent plan experience.
 - The percent of future non Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

Method Changes: None

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2021**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Sale of Capital Assets	Balance End of Year
Governmental Funds						
General Fund						
Restricted for:						
Basic Skills	\$ 261,926	\$ 316,644	\$ 466,501			\$ 112,069
Medical Assistance	13,510	47,960	53,089			8,381
Restricted	149,221	3,049,317	3,045,241	(68,934)		84,363
Committed						
Severance	325,540	5,120	42,013	50,000		338,647
Facility Improvements	346,275		38,459	25,000		332,816
Assigned for:						
Copier Replacement	18,483	227	(1,832)			20,542
Wellness	3,887	14,218	15,563			2,542
Unassigned	2,775,043	6,620,481	7,058,191	13,934	1,500	2,352,767
Community Service Fund						
Restricted for:						
Community Education	39,409	5,337	7,760			36,986
ECFE	94,330	238,457	210,383	(28,500)		93,904
School Readiness	66,578	416,792	418,481	8,500		73,389
Adult Basic Education	17,364	217,176	217,176			17,364
Community Service	22,680	9,277	7,274			24,683

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Directors
Freshwater Education District No. 6004
Wadena, 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 remaining fund information of Freshwater Education District No. 6004 as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2021.

Legal Compliance

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

Purpose of the Report

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



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

November 10, 2021

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

To the Board of Directors
Freshwater Education District No. 6004
Wadena, 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 remaining fund information of Freshwater Education District No. 6004, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

The District's Response to Findings

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

Purpose of this Report

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



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

November 10, 2021

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

To the Board of Directors
Freshwater Education District No. 6004
Wadena, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Freshwater Education District No. 6004's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of Freshwater Education District No. 6004 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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 10, 2021

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Passed Through to Subrecipients	Amount
<u>U.S. Department of Education</u>			
Direct Programs:			
Rural Education	84.358	\$	\$ 26,712
Passed-Through Minnesota Department of Education:			
<i>Special Education (IDEA) Cluster:</i>			
Special Education Grants to States	84.027	546,003	2,366,586
Special Education Preschool Grants	84.173		101,932
Passed-Through MN School District- Sourcewell District No. 924:			
<i>Special Education (IDEA) Cluster:</i>			
Special Education Grants to States	84.027		17,734
<i>Total Special Education (IDEA) Cluster:</i>		<u>546,003</u>	<u>2,486,252</u>
Passed-Through Minnesota Department of Education:			
Carl Perkins Career and Technical	84.048	272,969	332,186
Special Education Grants for Infants and Families	84.181		71,053
COVID-19 Elementary and Secondary Education Relief Fund	84.425D		33,077
COVID-19 Governor's Emergency Education Relief Fund	84.425C		6,460
Total CFDA 84.425			<u>39,537</u>
Total U.S. Department of Education		<u>818,972</u>	<u>2,955,740</u>
<u>U.S. Department of Treasury</u>			
Passed-Through Minnesota Department of Education:			
COVID-19 Coronavirus Relief Fund	21.019C		36,411
Total U.S. Department of Treasury			<u>36,411</u>
TOTAL FEDERAL AWARDS		<u>\$ 818,972</u>	<u>\$ 2,992,151</u>

See Notes to the Schedule of Expenditures of Federal Awards

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on 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 accompanying schedule of expenditures of federal awards includes the federal award activity of the Freshwater Education District No. 6004 under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Freshwater Education District No. 6004, it is not intended to be and does not present the financial position or changes in net position of the Freshwater Education District No. 6004.

NOTE 4 PASS-THROUGH ENTITIES

Pass-through entities listed above without a pass-through number use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 5 SUBRECIPIENTS

The District passes certain federal awards received from the State of Minnesota Department of Education to other governments or not-for-profit agencies (subrecipients). The District reports expenditures of federal awards to subrecipients when incurred using the principles under the modified accrual basis of accounting. As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use the subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2021**

Section I-Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Significant deficiency(ies) 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(ies) 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>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	<i>Special Education (IDEA) Cluster:</i>
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants

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

\$750,000

Auditee qualified as low-risk auditee?

yes no

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
June 30, 2021

Section II-Financial Statement Findings

2021-001 FINDING

Criteria

An appropriate system of internal controls requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The District elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Repeat Finding

Yes. Prior audit finding 2020-001.

Recommendation

We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statement and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review on an annual basis.

Section III-Federal Award Findings and Questioned Costs

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

**FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2021**

2020-001 FINDING

Criteria

An appropriate system of internal controls requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The District elected to have the auditors assist with the preparation of the financial statements for efficiency.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Repeat Finding

Yes. Prior audit finding 2019-001.

Recommendation

The District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statement and to review a financial statement disclosure checklist.

Corrective Action Taken

No action taken. See current year finding 2021-001 and Corrective Action Plan.

2021-001 FINDING

Contact Person – Business Manager

Corrective Action Plan – The District will establish a policy to document review of financial statements and notes.

Completion Date – Ongoing

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2021

District Name:	FRESHWATER EDUCATION DISTRICT NO. 6004			District Number:	6004		
	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	10,053,967	10,053,967		Total Revenue			
Total Expenditures	10,717,225	10,717,226	(1)	Total Expenditures			
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance				460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
401 Student Activities				407 Capital Projects Levy			
402 Scholarships				413 Projects Funded By COP			
403 Staff Development				467 Long Term Fac. Maint. (LTFM)			
407 Capital Projects Levy				<i>Restricted</i>			
408 Cooperative Revenue				464 Restricted Fund Balance			
413 Project Funded by COP				<i>Unassigned:</i>			
414 Operating Debt				463 Unassigned Fund Balance			
416 Levy Reduction				Reconciliation of Building Construction			
417 Taconite Building Maintenance							
424 Operating Capital				07 DEBT SERVICE			
426 \$25 Taconite				Total Revenue			
427 Disabled Accessibility				Total Expenditures			
428 Learning & Development				<i>Non Spendable</i>			
434 Area Learning Center				460 Non Spendable Fund Balance			
435 Contracted Alt Programs				<i>Restricted/Reserved:</i>			
436 State Approved Alt Program				425 Bond Refundings			
438 Gifted & Talented				433 Max Effort Loan			
440 Teacher Development and Eval				451 QZAB Payments			
441 Basic Skills Programs	112,069	112,068	1	<i>Restricted</i>			
448 Achievement and Integration				464 Restricted Fund Balance			
449 Safe Schools Levy				<i>Unassigned:</i>			
451 QZAB Payments				463 Unassigned Fund Balance			
452 OPEB Liab Not In Trust				Reconciliation of Debt Service			
453 Unfnded Sev & Retirement Levy							
459 Basic Skills Extended Time				08 TRUST			
467 Long Term Fac. Maint. (LTFM)				Total Revenue			
472 Medical Assistance	8,381	8,381		Total Expenditures			
<i>Restricted</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	84,363	84,364	(1)	422 Unassigned Fund Balance			
475 Title VII - Impact Aid				Reconciliation of Trust			
476 PILT							
<i>Committed</i>				18 CUSTODIAL			
418 Committed for Separation	338,647	338,648	(1)	Total Revenue	200,758	200,758	
461 Committed	332,816	332,816		Total Expenditures	223,711	223,711	
<i>Assigned</i>				<i>Restricted</i>			
462 Assigned Fund Balance	23,084	23,084		402 Scholarships	27,759	27,759	
<i>Unassigned:</i>				464 Restricted Fund Balance	1,031,819	1,031,819	
422 Unassigned Fund Balance	2,352,767	2,352,766	1	Reconciliation of Trust	1,484,047	1,484,047	
Reconciliation of General	24,023,319	24,023,320	(1)				
02 FOOD SERVICE				20 INTERNAL SERVICE			
Total Revenue				Total Revenue			
Total Expenditures				Total Expenditures			
<i>Non Spendable</i>				<i>Unassigned:</i>			
460 Non Spendable Fund Balance				422 Unassigned Fund Balance			
<i>Restricted/Reserved:</i>				Reconciliation of Internal Service			
452 OPEB Liab Not In Trust							
<i>Restricted</i>				25 OPEB REVOCABLE TRUST FUND			
464 Restricted Fund Balance				Total Revenue			
<i>Unassigned</i>				Total Expenditures			
463 Unassigned Fund Balance				<i>Unassigned:</i>			
Reconciliation of Food Service				422 Unassigned Fund Balance			
				Reconciliation of OPEB Revocable Trust			
04 COMMUNITY SERVICE				45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue	887,039	887,039		Total Revenue			
Total Expenditures	861,074	861,074		Total Expenditures			
<i>Non Spendable</i>				<i>Unassigned:</i>			
460 Non Spendable Fund Balance				422 Unassigned Fund Balance			
<i>Restricted/Reserved:</i>				Reconciliation of OPEB Irrevocable Trust			
426 \$25 Taconite							
431 Community Education	36,986	36,985	1	47 OPEB DEBT SERVICE FUND			
432 E.C.F.E.	93,904	93,903	1	Total Revenue			
440 Teacher Development and Eval				Total Expenditures			
444 School Readiness	73,389	73,390	(1)	<i>Non Spendable</i>			
447 Adult Basic Education	17,364	17,362	2	460 Non Spendable Fund Balance			
452 OPEB Liab Not In Trust				<i>Restricted</i>			
464 Restricted Fund Balance	24,683	24,684	(1)	425 Bond Refunding			
<i>Unassigned</i>				464 Restricted Fund Balance			
463 Unassigned Fund Balance				<i>Unassigned</i>			
Reconciliation of Community Service	1,994,439	1,994,437	2	463 Unassigned Fund Balance			
				Reconciliation of OPEB Debt Service			