FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
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FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
GOVERNING BOARD
June 30, 2020

Chairperson	Scott Veronen	Verndale
Vice-Chairperson	Jodi Hilmer	Browerville
Clerk	Russ VanDenheuvel	Bertha-Hewitt
Treasurer	Rod Thalmann	Henning
Director	Charles Funk	Sebeka
Director	Vince Hinojos	Wadena-Deer Creek
Director	Katie Howard	Menahga
Director	Bruce Lund	Staples-Motley
Director	Chuck Wolf	Long Prairie-Grey Eagle
Executive Director (Through June 30, 2020)	Jerald Nesland	
Executive Director (Effective July 1, 2020)	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 *
Mike Rowe	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 the Freshwater Education District No. 6004, as of and for the year ended June 30, 2020, 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, 2020, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities.* As discussed in Note 2 to the financial statements, the District has retroactively restated the previously reported net position and fund balances in accordance with this statement.

Our opinion is not modified with respect to this matter.

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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brady Martz

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

November 16, 2020

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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, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for the 2019-2020 fiscal year include the following:

- The General fund balance decreased by $378,939 during the 2019-2020 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.

<u>District-wide Statements</u>

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.

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 three 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, building construction fund, and community service fund, all of 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.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $2,256,088 on June 30, 2020 (see details in Table A-1). This was a decrease of 25.6 percent from the prior year.

Table A-1
Statement of Net Position

	2020	2019	Total Percentage Change
Current and Other Assets	$ 5,477,146	$ 6,952,799	(21.2) %
Capital Assets	6,779,667	6,648,443	2.0
Total Assets	12,256,813	13,601,242	(9.9)
Deferred Outflows of Resources	5,244,311	7,225,833	(27.4)
Long-term Liabilities	6,570,821	6,308,876	4.2
Other Liabilities	1,342,900	2,342,418	(42.7)
Total Liabilities	7,913,721	8,651,294	(8.5)
Deferred Inflows of Resources	7,331,315	9,144,444	(19.8)
Net Position			
Net Investment in Capital Assets	6,779,667	6,648,443	2.0
Restricted	665,018	839,061	(20.7)
Unrestricted	(5,188,597)	(4,456,167)	(16.4)
Total Net Position	$ 2,256,088	$ 3,031,337	(25.6) %

Change in Net Position

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

Table A-2
Change in Net Position

	2020	2019	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 4,979,715	$ 5,068,735	(1.8) %
Operating Grants and Contributions	5,727,088	5,183,714	10.5
Capital Grants and Contributions		5,000,000	(100.0)
General Revenues			
Unrestricted State Aid	295,322	358,783	(17.7)
Unrestricted Investment Earnings	62,044	118,820	(47.8)
Other Sources	185,126	468,333	(60.5)
Total Revenues	11,249,295	16,198,385	(30.6)
Expenses			
Administration	712,668	533,565	33.6
District Support Services	143,144	192,780	(25.7)
Elementary & Secondary Regular Instruction	1,355,521	1,425,793	(4.9)
Vocational Education Instruction	257,882	293,617	(12.2)
Special Education Instruction	7,533,890	4,328,617	74.0
Community Education and Services	770,116	612,091	25.8
Instructional Support Services	509,259	371,890	36.9
Pupil Support Services	154,781	167,000	(7.3)
Sites and Buildings	448,703	250,962	78.8
Fixed Costs	23,659	18,914	25.1
Depreciation- Unallocated	98,389	48,097	104.6
Total Expenses	12,008,012	8,243,326	45.7
Change in Net Position	(758,717)	7,955,059	(109.5)
Net Position - Beginning	3,031,337	(4,923,722)	161.6
GASB 84 Adjustment - See Note 2	(16,532)		100.0
Net Position - Beginning, as Restated	3,014,805	(4,923,722)	161.2
Net Position - Ending	$ 2,256,088	$ 3,031,337	(25.6) %

The District’s total revenues were $11,249,295 for the year ended June 30, 2020.

The total cost of all programs and services was $12,008,012. The District’s expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position $758,717 over last year. 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. For the year ended June 30, 2019, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $2,149,679.

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 2020	Total Cost of Services 2019	Total Percentage Change	Net Cost of Services 2020	Net Cost of Services 2019	Total Percentage Change
Expenses						
Administration	$ 712,668	$ 533,565	33.6 %	$ 370,065	$ 215,277	71.9 %
District Support Services	143,144	192,780	(25.7)	143,144	192,780	(25.7)
Elementary & Secondary Regular Instruction	1,355,521	1,425,793	(4.9)	(437,194)	(640,930)	31.8
Vocational Education Instruction	257,882	293,617	(12.2)		1,497	(100.0)
Special Education Instruction	7,533,890	4,328,617	74.0	331,576	(2,235,489)	114.8
Community Education and Services	770,116	612,091	25.8	(39,821)	(32,443)	(22.7)
Instructional Support Services	509,259	371,890	36.9	400,714	225,221	77.9
Pupil Support Services	154,781	167,000	(7.3)	63,595	48,310	31.6
Sites and Buildings	448,703	250,962	78.8	347,082	(4,850,357)	107.2
Fixed Costs	23,659	18,914	25.1	23,659	18,914	25.1
Depreciation- Unallocated	98,389	48,097	104.6	98,389	48,097	104.6
	$ 12,008,012	$ 8,243,326	45.7 %	$ 1,301,209	$ (7,009,123)	118.6 %

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 2020	Fund Balance 2019	Increase (Decrease)	Percentage Increase (Decrease)
Governmental Funds				
General	$ 3,893,885	$ 4,289,356	$ (395,471)	(9.2) %
Building Construction		136,285	(136,285)	(100.0)
Community Service	240,361	184,740	55,621	30.1

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

	2020	2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Interest Earnings	$ 58,947	$ 118,820	$ (59,873)	$ (50.4) %
Other	4,340,873	4,616,652	(275,779)	(6.0)
State Sources	3,058,966	3,010,219	48,747	1.6
Federal Sources	2,960,884	2,867,172	93,712	3.3
Other	2,878	2,698	180	6.7
Total General Fund Revenue	$ 10,422,548	$ 10,615,561	$ (193,013)	(1.8) %

Total general fund revenue decreased by $193,013 or 1.8 percent from the previous year.

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

Table A-6
General Fund Expenditures

	2020	2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 6,156,710	$ 5,893,788	$ 262,922	4.5 %
Employee Benefits	1,765,431	1,628,454	136,977	8.4
Purchased Services	2,004,373	2,094,432	(90,059)	(4.3)
Supplies and Materials	231,714	209,916	21,798	10.4
Capital Expenditures	428,426	1,143,398	(714,972)	(62.5)
Other Expenditures	214,833	85,104	129,729	152.4
Total General Fund Expenditures	$ 10,801,487	$ 11,055,092	$ (253,605)	(2.3) %

Total general fund expenditures decreased by $253,605 or 2.3 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in April 2019. During the year ended June 30, 2020, the District revised its budget.

The District's budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $1,747,415 and the actual results for the year show a deficit of $378,939.

Capital Assets

Capital Assets

Note 5 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2020. Additions totaling $388,877 consisted of an addition to the new building, a maintenance garage, custodial equipment, software, a snow plow, and two vehicles. The District also had disposals of $265,316 which consisted of an old building addition and computer and audio/visual equipment.

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 9,649.

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 $88,000 annually. Freshwater has moved into a new building with a new special education level IV classroom and office areas with a single point of administrative services at a central location.

On March 13, 2020, a national emergency was declared for the COVID-19 outbreak in the United States of America. This event affects the economy and financial markets. The extent of the impact on the District may be both direct and indirect and will vary based on the duration of the outbreak and various other factors. Estimates of the effect cannot be determined at the time of this report.

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, 2020

GOVERNMENTAL ACTIVITIES		
ASSETS		
Cash and Investments	$	2,995,438
Accounts Receivable		79,489
Due From MN School Districts		837,953
Due From Department of Education		658,033
Due From Federal Govt. - DOE		893,408
Due from Other Governments		12,825
Capital Assets		
Land		61,579
Capital Assets, Net of Accumulated Depreciation		6,718,088
TOTAL ASSETS		12,256,813
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan		5,129,242
Other Postemployment Benefit		115,069
TOTAL DEFERRED OUTFLOWS OF RESOURCES		5,244,311
LIABILITIES		
Accounts Payable		21,209
Salaries Payable		553,322
Payroll Deductions		437,931
Due to Other Govt Units		1,385
Due to Other MN Districts		328,970
Unearned Revenue		83
Long-Term Liabilities		
Vacation Payable		40,193
Total Other Postemployment Benefit Liability		399,608
Net Pension Liability		6,131,020
Total Long-Term Liabilities		6,570,821
TOTAL LIABILITIES		7,913,721
DEFERRED INFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan		7,270,908
Other Postemployment Benefit		60,407
TOTAL DEFERRED INFLOWS OF RESOURCES		7,331,315
NET POSITION		
Net Investment in Capital Assets		6,779,667
Restricted		
Basic Skills		261,926
Medical Assistance		13,510
Other		149,221
Community Education		39,409
ECFE		94,330
School Readiness		66,578
Adult Basic Education		17,364
Community Service		22,680
Unrestricted		(5,188,597)
TOTAL NET POSITION	$	2,256,088

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES				
Administration	$ 712,668	$ 342,603	$	$ (370,065)
District Support Services	143,144			(143,144)
Elementary & Secondary				
Regular Instruction	1,355,521	1,335,140	457,575	437,194
Vocational Education Instruction	257,882		257,882	
Special Education Instruction	7,533,890	2,247,557	4,954,757	(331,576)
Community Education and Services	770,116	809,937		39,821
Instructional Support Services	509,259	52,575	55,970	(400,714)
Pupil Support Services	154,781	90,282	904	(63,595)
Sites and Buildings	448,703	101,621		(347,082)
Fixed Costs	23,659			(23,659)
Depreciation- Unallocated	98,389			(98,389)
TOTAL GOVERNMENTAL ACTIVITIES	$ 12,008,012	$ 4,979,715	$ 5,727,088	(1,301,209)

GENERAL REVENUES	
Unrestricted State Aid	295,322
Unrestricted Investment Earnings	62,044
Other General Revenue	185,126
TOTAL GENERAL REVENUES	542,492
Change in Net Position	(758,717)
Net Position - Beginning	3,031,337
GASB 84 Adjustment - See Note 2	(16,532)
Net Position - Beginning, as Restated	3,014,805
Net Position - Ending	$ 2,256,088

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2020

	General Fund	Community Service Fund	Total Governmental Funds
ASSETS			
Cash and Investments	$ 2,784,472	$ 210,966	$ 2,995,438
Accounts Receivable	79,489		79,489
Due From MN School Districts	731,747	106,206	837,953
Due From Department of Education	658,033		658,033
Due From Federal Govt. - DOE	893,408		893,408
Due From Other Governments	12,825		12,825
TOTAL ASSETS	$ 5,159,974	$ 317,172	$ 5,477,146
LIABILITIES			
Accounts Payable	$ 16,249	$ 4,960	$ 21,209
Salaries Payable	481,493	71,829	553,322
Due to Other Govt Units	1,385		1,385
Due to Other MN Districts	328,948	22	328,970
Payroll Deductions	437,931		437,931
Unearned Revenue	83		83
TOTAL LIABILITIES	1,266,089	76,811	1,342,900
FUND BALANCES			
Restricted for Basic Skills	261,926		261,926
Restricted for Medical Assistance	13,510		13,510
Restricted for Other	149,221		149,221
Restricted for Community Education		39,409	39,409
Restricted for ECFE		94,330	94,330
Restricted for School Readiness		66,578	66,578
Restricted for Adult Basic Education		17,364	17,364
Restricted for Community Service		22,680	22,680
Committed for Severance	325,540		325,540
Committed for Facility Improvements	346,275		346,275
Assigned for Copier Replacement	18,483		18,483
Assigned for Wellness	3,887		3,887
Unassigned	2,775,043		2,775,043
TOTAL FUND BALANCES	3,893,885	240,361	4,134,246
TOTAL LIABILITIES AND FUND BALANCES	$ 5,159,974	$ 317,172	$ 5,477,146

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, 2020

Total fund balances - governmental funds	$	4,134,246
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		7,734,968
Less accumulated depreciation		(955,301)
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.		5,244,311
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Vacation Payable		(40,193)
Total Other Postemployment Benefit Liability		(399,608)
Net Pension Liability		(6,131,020)
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.		(7,331,315)
Net position - governmental activities	$	2,256,088

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, 2020

	General Fund	Building Construction Fund	Community Service Fund	Total Governmental Funds
REVENUES				
Other Local & County Revenues	$ 4,399,820	$	$ 824,186	$ 5,224,006
Revenue From State Sources	3,058,966			3,058,966
Revenue From Federal Sources	2,960,884			2,960,884
Sale/Other Conversion of Asset	2,878			2,878
TOTAL REVENUES	10,422,548		824,186	11,246,734
EXPENDITURES				
Current				
Administration	669,779			669,779
District Support Services	128,468			128,468
Elementary & Secondary Regular Instruction	1,346,551			1,346,551
Vocational Instruction	256,789			256,789
Special Education Instruction	7,082,118			7,082,118
Community Education and Services			765,266	765,266
Instructional Support Services	484,203			484,203
Pupil Support Services	147,624			147,624
Sites and Buildings	233,870			233,870
Fixed Costs	23,659			23,659
Capital Outlay	428,426	136,285	3,299	568,010
TOTAL EXPENDITURES	10,801,487	136,285	768,565	11,706,337
Net Change in Fund Balances	(378,939)	(136,285)	55,621	(459,603)
Fund Balances - Beginning	4,289,356	136,285	184,740	4,610,381
GASB 84 Adjustment - See Note 2	(16,532)			(16,532)
Fund Balances - Beginning, as Restated	4,272,824	136,285	184,740	4,593,849
Fund Balances - Ending	$ 3,893,885	$	$ 240,361	$ 4,134,246

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, 2020

Total net change in fund balances - governmental funds	$	(459,603)
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		388,877
Depreciation expense		(257,057)
The loss on disposal of capital assets decreases net position.		(596)
Change in net pension liability.		(306,319)
Changes in deferred outflows and inflows of resources related to net pension liability.		(220,952)
Changes in deferred outflows and inflows of resources related to other postemployment benefit liability.		52,559
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		19,629
Vacation payable		24,745
Change in net position - governmental activities	$	(758,717)

See Notes to the Financial Statements

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION – CUSTODIAL FUNDS
June 30, 2020

	Health Reimbursement Arrangement	Scholarships	Total Custodial Funds
ASSETS			
Cash and Investments	$ 1,057,039	$ 29,614	$ 1,086,653
Accounts Receivable	2,116		2,116
TOTAL ASSETS	1,059,155	29,614	1,088,769
LIABILITIES			
Other Payables	6,238		6,238
TOTAL LIABILITIES	6,238		6,238
NET POSITION	$ 1,052,917	$ 29,614	$ 1,082,531

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, 2020

	Health Reimbursement Arrangement	Scholarships	Total Custodial Funds
ADDITIONS	$ 333,769	$ 15,082	$ 348,851
TOTAL ADDITIONS	333,769	15,082	348,851
DEDUCTIONS	246,427	2,000	248,427
TOTAL DEDUCTIONS	246,427	2,000	248,427
Change in Net Position	87,342	13,082	100,424
Net Position - Beginning	965,575		965,575
GASB 84 Adjustment - See Note 2		16,532	16,532
Net Position - Beginning, as Restated	965,575	16,532	982,107
Net Position - End of Year	$ 1,052,917	$ 29,614	$ 1,082,531

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.

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:

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.

Capital Projects – Building Construction Fund – Accounts for the financial resources used for the acquisition or construction of major capital facilities.

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.

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, 2020 and 2019 was $40,193 and $64,938, respectively. The liability for all employees consists of twenty individuals as of June 30, 2020 and 2019.

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 2020, $4,300 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 2019.

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

<u>Deferred Outflows/Inflows of Resources</u> – In addition to assets, the statement of 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* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date and *Other Postemployment Benefits* which represents actuarial difference with OPEB plans.

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.

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

<u>Net Position Flow Assumption</u> – 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.

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

> <u>Nonspendable</u> – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
>
> <u>Restricted</u> – 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.
>
> <u>Committed</u> – 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.

<u>Assigned</u> – 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.

<u>Unassigned</u> – 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 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION AND FUND BALANCE

The District implemented GASB Statement No. 84, *Fiduciary Activities,* in the fiscal year ended June 30, 2020. As a result, beginning net position and general fund balance have been restated to reflect the scholarships cash balance of $16,532 being moved to a custodial fund, resulting in a decrease in net position and general fund balance.

NOTE 3 RECLASSIFICATIONS

Certain reclassifications have been made to the 2019 financial statements in order to conform with the 2020 presentation.

NOTE 4 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, 2020, was $58,947.

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

	Governmental Activities	Fiduciary Funds	Total
Cash	$ 844,159	$ 144,586	$ 988,745
Investments	2,151,279	942,067	3,093,346
Total	$ 2,995,438	$ 1,086,653	$ 4,082,091

As of June 30, 2020, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

Investment	Fair Value (Level 1)
Minnesota School District Liquid Asset Fund	$3,093,346

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.

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

<u>Custodial Credit Risk - Deposits</u> – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2020, the District was not exposed to custodial credit risk.

<u>Custodial Credit Risk - Investments</u> - 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 5 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 61,579	$	$	$ 61,579
Total Capital Assets, Not Being Depreciated	61,579			61,579
Capital Assets, Being Depreciated:				
Site Improvements	510,011			510,011
Buildings	6,171,972	279,271	166,526	6,284,717
Equipment	867,845	109,606	98,790	878,661
Total Capital Assets, Being Depreciated	7,549,828	388,877	265,316	7,673,389
Less Accumulated Depreciation For:				
Site Improvements	12,750	25,501		38,251
Buildings	464,667	155,569	166,526	453,710
Equipment	485,547	75,987	98,194	463,340
Total Accumulated Depreciation	962,964	257,057	264,720	955,301
Total Capital Assets, Being Depreciated, Net	6,586,864	131,820	596	6,718,088
Governmental Activities Capital Assets, Net	$ 6,648,443	$ 131,820	$ 596	$ 6,779,667

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

Administration	$ 11,303
District Support Services	12,010
Special Education Instruction	17,790
Community Education and Services	1,551
Instructional Support Services	17,932
Pupil Support Services	6,984
Sites and Buildings	91,098
	158,668
Unallocated	98,389
Total Depreciation Expense	$ 257,057

NOTE 6 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 (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
All full-time and certain part-time employees of the District are covered by the General Employees Plan. 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. For 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 2020 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, 2020, were $113,536. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2020, the District reported a liability of $1,089,169 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 to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $33,832. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.0197% at the end of the measurement period and 0.0196% for the beginning of the period.

District's proportionate share of net pension liability	$	1,089,169
State of Minnesota's proportionate share of the net pension liability associated with the District		33,832
Total	$	1,123,001

For the year ended June 30, 2020, the District recognized pension expense of $127,972 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional $2,534 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At June 30, 2020, the 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	$	30,110	$	
Difference between projected and actual investment earnings				108,338
Changes in actuarial assumptions				85,265
Changes in proportion		4,666		10,148
Contributions paid to PERA subsequent to the measurement date		113,536		
Total	$	148,312	$	203,751

$113,536 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, 2021. 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
2021	$	(64,930)
2022		(85,667)
2023		(20,135)
2024		1,757

Actuarial Assumptions – The total pension liability in the June 30, 2019 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

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

Actuarial assumptions used in the June 30, 2019, 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. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

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

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

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

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

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

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

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 1,790,535	$ 1,089,169	$ 510,052

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.

Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End
The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on PERA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2020.

B. Teachers Retirement Association

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

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

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

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

Tier I Benefits:

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

With these provisions:

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

or

Tier II Benefits:

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

Members first employed after June 30, 1989, receive only the Tier II 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, 2018, June 30, 2019, and June 30, 2020, were:

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

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

		in thousands
Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$	403,300
Add employer contributions not related to future contribution efforts		(688)
Deduct TRA's contributions not included in allocation		(486)
Total employer contributions		402,126
Total non-employer contributions		35,588
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$	437,714

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, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2019
Experience Study	June 5, 2015 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:

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 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 2019 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, 2020, the District reported a liability of $5,041,851 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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 0.0791% at the end of the measurement period and 0.0754% for the beginning of the year.

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

District's proportionate share of net pension liability	$	5,041,851
State's proportionate share of the net pension liability associated with the District	$	446,188

For the year ended June 30, 2020, the District recognized pension expense of $1,071,863. It also recognized $33,916 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 7,688	$ 120,311
Net difference between projected and actual earnings on plan inv.		405,973
Changes in actuarial assumptions	4,037,260	6,404,321
Changes in proportion	554,244	136,552
Contributions paid to TRA subsequent to the measurement date	381,738	
Total	$ 4,980,930	$ 7,067,157

$381,738 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2021	$ 386,276
2022	81,157
2023	(1,728,267)
2024	(1,255,920)
2025	48,789

<u>Pension Liability Sensitivity</u> - 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

1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.50%)
$ 8,037,943	$ 5,041,851	$ 2,571,617

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.

Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End
The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on TRA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2020.

The District recognized total pension expense of $1,199,835 for all of the pension plans in which it participates.

NOTE 7 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, 2020, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	9
Active plan members	111
Total Members	120

Total OPEB Liability – The District's total OPEB liability of $399,608 was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2019.

Actuarial Assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.0 percent, average, including inflation
Healthcare Cost Trend Rates	6.9 percent decreasing to 4.4 percent by 2075.

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 3.13%.

In the June 30, 2019 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 6/30/2019	$ 419,237
Changes for the year:	
Service Cost	21,778
Interest Cost	14,871
Changes in Assumptions	4,123
Employer Contributions	(60,401)
Net Changes	(19,629)
Balance at 6/30/2020	$ 399,608

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 (2.13 percent) or one percentage point higher (4.13 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.13%)	Current (3.13%)	1% Increase (4.13%)
$ 407,146	$ 399,608	$ 390,940

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 (5.9 percent decreasing to 4.4 by 2075) or one percentage point higher (7.9 percent decreasing to 4.4 by 2075) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.9% decreasing to 4.4% by 2075)	(6.9% decreasing to 4.4% by 2075)	(7.9% decreasing to 4.4% by 2075)
$ 391,487	$ 399,608	$ 409,060

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2020, the District recognized OPEB expense of $26,841. At June 30, 2020, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	$ 57,248
Changes in actuarial assumptions	21,649	3,159
Employer contributions paid subsequent to the measurement date	93,420	
Total	$ 115,069	$ 60,407

$93,420 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ending June 30	OPEB Expense Amount
2021	$ (9,808)
2022	(9,455)
2023	(8,052)
2024	(8,052)
2025	(3,709)
Thereafter	318

NOTE 8 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2020 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Vacation Payable	$ 64,938	$	$ 24,745	$ 40,193	$
Total Long-Term Liabilities	$ 64,938	$	$ 24,745	$ 40,193	$

The vacation payable is generally liquidated by the general fund.

NOTE 9 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 10 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 11 403(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-two employees were participating during the year ended June 30, 2020; the District's matching contributions totaled $35,244.

NOTE 12 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 a building in Deer Creek under a 36-month lease which commenced July 1, 2017. The annual commitment under the lease is $64,500. The District must pay custodial services of $32,000 per year; gymnasium use at $50 per day; and cold storage with garage space at $50 per month. Gymnasium use and cold storage totaled $8,850 for the 2019-2020 year.

NOTE 13 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, 2020.

NOTE 14 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 15 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, 2015 to June 30, 2018 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, 2018 to June 30, 2021. Separate financial statements for the venture are not prepared.

NOTE 16 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.

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, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Other Local & County Revenues	$ 4,050,563	$ 4,050,010	$ 4,399,820	$ 349,810
Revenue From State Sources	2,473,058	2,513,831	3,058,966	545,135
Revenue From Federal Sources	3,067,906	3,183,920	2,960,884	(223,036)
Sale/Other Conversion of Asset	2,529	4,933	2,878	(2,055)
TOTAL REVENUES	9,594,056	9,752,694	10,422,548	669,854
EXPENDITURES				
Current				
Administration	537,616	659,271	669,779	10,508
District Support Services	36,849	130,416	128,468	(1,948)
Elementary & Secondary Regular Instruction	1,744,319	1,718,549	1,346,551	(371,998)
Vocational Education Instruction	296,106	304,571	256,789	(47,782)
Special Education Instruction	7,369,317	7,332,048	7,082,118	(249,930)
Instructional Support Services	318,266	464,264	484,203	19,939
Pupil Support Services	204,279	175,891	147,624	(28,267)
Sites and Buildings	180,144	244,854	233,870	(10,984)
Fixed Costs	18,921	23,772	23,659	(113)
Capital Outlay	200,441	446,473	428,426	(18,047)
TOTAL EXPENDITURES	10,906,258	11,500,109	10,801,487	(698,622)
Net Change in Fund Balances	(1,312,202)	(1,747,415)	(378,939)	1,368,476
Fund Balances - Beginning	4,289,356	4,289,356	4,289,356	
GASB 84 Adjustment - See Note 2	(16,532)	(16,532)	(16,532)	
Fund Balances - Beginning, as Restated	4,272,824	4,272,824	4,272,824	
Fund Balances - Ending	$ 2,960,622	$ 2,525,409	$ 3,893,885	$ 1,368,476

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, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Other Local & County Revenues	$ 769,187	$ 855,630	$ 824,186	$ (31,444)
TOTAL REVENUES	769,187	855,630	824,186	(31,444)
EXPENDITURES				
Current				
Community Education and Services	713,595	840,938	765,266	(75,672)
Capital Outlay	8,956	6,577	3,299	(3,278)
TOTAL EXPENDITURES	722,551	847,515	768,565	(78,950)
Net Change in Fund Balances	46,636	8,115	55,621	47,506
Fund Balances - Beginning	184,740	184,740	184,740	
Fund Balances - Ending	$ 231,376	$ 192,855	$ 240,361	$ 47,506

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

	2018	2019	2020
Total OPEB Liability			
Service Cost	$ 20,634	$ 18,942	$ 21,778
Interest	15,204	17,254	14,871
Differences Between Expected and Actual Experience		(82,692)	
Changes in Assumptions	(8,427)	26,233	4,123
Benefit Payments	(80,159)	(60,655)	(60,401)
Net Change in Total OPEB Liability	(52,748)	(80,918)	(19,629)
Total OPEB Liability - Beginning	552,903	500,155	419,237
Total OPEB Liability - Ending	$ 500,155	$ 419,237	$ 399,608
Covered Payroll	$ 4,265,960	$ 4,327,586	$ 5,250,322
District's Total OPEB Liability as a Percentage of a Covered Payroll	11.72%	9.69%	7.61%

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

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
PERA					
2015	$ 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
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

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

Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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
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

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

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

See Notes to the Required Supplementary Information

NOTE 1 BUDGETARY DATA

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

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

NOTE 2 DEFINED BENEFIT PLANS

PERA

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

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

2018 Changes
<u>Changes in Actuarial Assumptions:</u> 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.

<u>Changes in Plan Provisions:</u> 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
<u>Changes in Actuarial Assumptions:</u> 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.

<u>Changes in Plan Provisions:</u> 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
<u>Changes in Actuarial Assumptions:</u> 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
<u>Changes in Plan Provisions:</u> 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.

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

TRA

<u>Changes in Actuarial Assumptions Since the 2016 Valuation:</u>
- The Cost of Living Adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

<u>Changes in actuarial assumptions since the 2017 valuation:</u>
- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payment and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.

- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

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

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

<u>Changes since the prior valuation</u>:

<u>Plan Changes</u>: None

<u>Assumption Changes</u>:
- The discount rate was changed from 3.62% to 3.13% based on updated 20-year municipal bond rates.

<u>Method Changes</u>: None

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2020

	Balance Beginning of Year, as Restated	Revenues	Expenditures	Transfers	Balance End of Year
Governmental Funds					
General Fund					
Nonspendable	$ 1,063	$	$	$ (1,063)	$
Restricted for:					
Teacher Development	4,703		4,703		
Basic Skills	331,105	261,433	330,612		261,926
Medical Assistance	34,231	25,513	46,234		13,510
Restricted	131,465	3,017,476	2,999,720		149,221
Committed					
Severance	256,118	12,842	93,420	150,000	325,540
Facility Improvements	420,586		224,311	150,000	346,275
E-rate	128,880		128,880		
Assigned for:					
Copier Replacement	15,812	213	(2,458)		18,483
Wellness	1,029	10,583	7,725		3,887
Unassigned	2,947,832	7,094,488	6,968,340	(298,937)	2,775,043
Community Service Fund					
Restricted for:					
Community Education	36,959	20,893	18,443		39,409
ECFE	38,125	247,035	190,830		94,330
School Readiness	49,242	380,343	363,007		66,578
Adult Basic Education	41,726	157,437	181,799		17,364
Community Service	18,688	18,478	14,486		22,680
Building Construction Fund					
Restricted: Building Construction	136,285		136,285		

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, 2020, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2020.

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

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

November 16, 2020

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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, 2020, 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 16, 2020.

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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 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

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

November 16, 2020

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, 2020. 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, 2020.

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

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

November 16, 2020

FRESHWATER EDUCATION DISTRICT NO. 6004
WADENA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Passed Through to Subrecipients	Amount
U.S. Department of Education			
Passed-Through Minnesota Department of Education:			
Special Education (IDEA) Cluster:			
Special Education Grants to States	84.027	$ 568,453	$ 2,517,042
Special Education Preschool Grants	84.173		104,115
Passed-Through MN School District- Sourcewell District No. 924:			
Special Education (IDEA) Cluster:			
Special Education Grants to States	84.027		14,444
Total Special Education (IDEA) Cluster:		568,453	2,635,601
Passed-Through Minnesota Department of Education:			
Carl Perkins Career and Technical	84.048	218,108	257,882
Special Education Grants for Infants and Families	84.181		67,401
Total U.S. Department of Education		786,561	2,960,884
TOTAL FEDERAL AWARDS		$ 786,561	$ 2,960,884

See Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying schedule of expenditures of federal awards (the Schedule) are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 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, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Freshwater Education District No. 6004, it is not intended to and does not present the financial position, changes in net position or cash flows 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.

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 _x_ no
Significant deficiency(ies) identified?	_x_ yes ___ none reported
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Special Education (IDEA) Cluster:
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 _x_ no

Section II-Financial Statement Findings

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
We recommend 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 a 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.

2019-001 FINDING

Criteria
The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition
For the year ended June 30, 2019, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Directors is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause
The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect
The business manager is aware of the financial statement reporting deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Repeat Finding
Yes. Prior audit finding 2018-001.

Recommendation
The District's financial statement preparation should be reviewed on an annual basis.

Corrective Action Taken
No action taken. See current year finding 2020-001 and Corrective Action Plan.

2020-001 FINDING

Contact Person – Business Manager

Corrective Action Plan – 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, 2020

District Name: FRESHWATER EDUCATION DISTRICT NO. 6004 **District Number:** 6004

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	10,422,548	10,422,548	
Total Expenditures	10,801,487	10,801,486	1
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
401 Student Activities			
402 Scholarships			
403 Staff Development			
407 Capital Projects Levy			
408 Cooperative Revenue			
413 Project Funded by COP			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
424 Operating Capital			
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development			
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program			
438 Gifted & Talented			
440 Teacher Development and Eval			
441 Basic Skills Programs	261,926	261,925	1
448 Achievement and Integration			
449 Safe Schools Levy			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfnded Sev & Retiremt Levy			
459 Basic Skills Extended Time			
467 Long Term Fac. Maint. (LTFM)			
472 Medical Assistance	13,510	13,511	
Restricted			
464 Restricted Fund Balance	149,221	149,222	(1)
475 Title VII - Impact Aid			
476 PILT			
Committed			
418 Committed for Separation	325,540	325,540	
461 Committed	346,275	346,275	
Assigned			
462 Assigned Fund Balance	22,370	22,370	
Unassigned:			
422 Unassigned Fund Balance	2,775,043	2,775,041	2
Reconciliation of General	25,117,920	25,117,918	2
02 FOOD SERVICE			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Food Service			
04 COMMUNITY SERVICE			
Total Revenue	824,186	824,186	
Total Expenditures	768,565	768,565	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	39,409	39,408	1
432 E.C.F.E.	94,330	94,330	
440 Teacher Development and Eval			
444 School Readiness	66,578	66,579	(1)
447 Adult Basic Education	17,364	17,362	2
452 OPEB Liab Not In Trust			
464 Restricted Fund Balance	22,680	22,680	
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	1,833,112	1,833,110	2

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue			
Total Expenditures	136,285	136,285	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 Long Term Fac. Maint. (LTFM)			
Restricted			
464 Restricted Fund Balance			
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction	136,285	136,285	
07 DEBT SERVICE			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
433 Max Effort Loan			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance			
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Debt Service			
08 TRUST			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Trust			
18 CUSTODIAL			
Total Revenue	348,851	348,851	
Total Expenditures	248,427	248,427	
Restricted			
402 Scholarships	29,614	29,614	
464 Restricted Fund Balance	1,052,917	1,052,916	1
Reconciliation of Trust	1,679,809	1,679,808	1
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			