

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

*AUDITED FINANCIAL STATEMENTS*

FOR THE YEAR ENDED JUNE 30, 2019

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
TABLE OF CONTENTS**

---

	<u>Pages</u>
Governing Board.....	1
Independent Auditor’s Report.....	2-4
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Management’s Discussion and Analysis .....	5-11
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position.....	12
Statement of Activities .....	13
Balance Sheet - Governmental Funds .....	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Fiduciary Net Position .....	18
Notes to Basic Financial Statements .....	19-42
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule for the General Fund.....	43
Budgetary Comparison Schedule for the Community Service Fund .....	44
Schedule Changes in the District’s Total OPEB Liability and Related Ratios .....	45
Schedule of District Contributions.....	46
Schedule of District’s Share of Net Pension Liability.....	47
Notes to Required Supplementary Information.....	48-50
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Changes in Fund Balances.....	51

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
TABLE OF CONTENTS (CONTINUED)**

---

	<u>Pages</u>
Independent Auditor's Report on Minnesota Legal Compliance.....	52
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 <i>Government Auditing Standards</i> .....	53-54
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.....	55-56
Schedule of Expenditures of Federal Awards.....	57
Notes to Schedule of Expenditures of Federal Awards .....	58
Schedule of Findings and Questioned Costs.....	59-60
Summary Schedule of Prior Audit Findings .....	61
Corrective Action Plan .....	62
<b>SUPPLEMENTARY INFORMATION</b>	
Uniform Financial Accounting and Reporting Standards Compliance Table .....	63

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**GOVERNING BOARD**  
**June 30, 2019**

---

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	Julia Kicker	Menahga
Director	Bruce Lund	Staples-Motley
Director	Chuck Wolf	Long Prairie-Grey Eagle
Executive Director	Jerald Nesland	

Superintendents:

Mitch Anderson	Perham-Dent *
Dr. Ron Bratlie	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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Freshwater Education District No. 6004, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 December 30, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

December 30, 2019

This page intentionally left blank

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2019**

---

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, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **Financial Highlights**

Key financial highlights for the 2018-2019 fiscal year include the following:

- General fund balance decreased by \$183,031.

### **Overview of the Financial Statements**

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

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

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

### District-wide Statements

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

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

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

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2019**

---

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 fund 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 fiduciary, 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 fiduciary activities (Health Reimbursement Arrangement Fund) are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2019**

---

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

Net Position

The District's combined net position was \$3,031,337 on June 30, 2019 (see details in Table A-1). This was an increase of 161.6 percent from the prior year.

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

	<u>2019</u>	<u>2018</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 6,952,799	\$ 5,980,130	16.3 %
Capital Assets	<u>6,648,443</u>	<u>857,518</u>	675.3
Total Assets	<u>13,601,242</u>	<u>6,837,648</u>	98.9
Deferred Outflows of Resources	<u>7,225,833</u>	<u>9,560,051</u>	(24.4)
Long-term Liabilities	6,308,876	17,219,880	(63.4)
Other Liabilities	<u>2,342,418</u>	<u>1,343,305</u>	74.4
Total Liabilities	<u>8,651,294</u>	<u>18,563,185</u>	(53.4)
Deferred Inflows of Resources	<u>9,144,444</u>	<u>2,758,236</u>	231.5
Net Position			
Net Investment in Capital Assets	6,648,443	857,518	675.3
Restricted	839,061	682,099	23.0
Unrestricted	<u>(4,456,167)</u>	<u>(6,463,339)</u>	31.1
Total Net Position	<u>\$ 3,031,337</u>	<u>\$ (4,923,722)</u>	161.6 %

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2019**

Change in Net Position

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

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

	2019	2018	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	\$ 5,068,735	\$ 5,194,324	(2.4) %
Operating Grants and Contributions	5,183,714	4,512,321	14.9
Capital Grants and Contributions	5,000,000	35,000	14,185.7
General Revenues			
Unrestricted State Aid	358,783	278,950	28.6
Unrestricted Investment Earnings	118,820	63,937	85.8
Other Sources	468,333	156,999	198.3
Total Revenues	<u>16,198,385</u>	<u>10,241,531</u>	58.2
Expenses			
Administration	533,565	398,364	33.9
District Support Services	192,780	222,268	(13.3)
Elementary & Secondary Regular Instruction	1,425,793	1,974,406	(27.8)
Vocational Education Instruction	293,617	303,276	(3.2)
Special Education Instruction	4,328,617	7,693,183	(43.7)
Community Education and Services	612,091	807,954	(24.2)
Instructional Support Services	371,890	300,488	23.8
Pupil Support Services	167,000	215,801	(22.6)
Sites and Buildings	250,962	144,674	73.5
Fixed Costs	18,914	17,861	5.9
Depreciation- Unallocated	48,097		100.0
Total Expenses	<u>8,243,326</u>	<u>12,078,275</u>	(31.8)
Change in Net Position	7,955,059	(1,836,744)	533.1
Net Position - Beginning	<u>(4,923,722)</u>	<u>(3,086,978)</u>	(59.5)
Net Position - Ending	<u>\$ 3,031,337</u>	<u>\$ (4,923,722)</u>	161.6 %

The District's total revenues were \$16,198,385 for the year ended June 30, 2019. The District received a \$5,000,000 grant to build a new setting IV facility.

The total cost of all programs and services was \$8,243,326. The District's expenses are predominantly related to educating and caring for students.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2019**

Total revenues surpassed expenses, increasing net position \$7,955,059 over last year. 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. For the year ended June 30, 2018, 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 \$2,461,011.

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

Table A-3 presents these net costs.

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

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2019	2018		2019	2018	
<b>Expenses</b>						
Administration	\$ 533,565	\$ 398,364	33.9 %	\$ 215,277	\$ 65,338	229.5 %
District Support Services Elementary & Secondary	192,780	222,268	(13.3)	192,780	168,414	14.5
Regular Instruction	1,425,793	1,974,406	(27.8)	(640,930)	(143,765)	345.8
Vocational Education Instruction	293,617	303,276	(3.2)	1,497	24,146	(93.8)
Special Education Instruction	4,328,617	7,693,183	(43.7)	(2,235,489)	1,734,130	(228.9)
Community Education and Services	612,091	807,954	(24.2)	(32,443)	240,578	(113.5)
Instructional Support Services	371,890	300,488	23.8	225,221	144,024	56.4
Pupil Support Services	167,000	215,801	(22.6)	48,310	87,297	(44.7)
Sites and Buildings	250,962	144,674	73.5	(4,850,357)	(1,393)	348,095.0
Fixed Costs	18,914	17,861	5.9	18,914	17,861	5.9
Depreciation- Unallocated	48,097		100.0	48,097		100.0
	<u>\$ 8,243,326</u>	<u>\$ 12,078,275</u>	(31.8) %	<u>\$ (7,009,123)</u>	<u>\$ 2,336,630</u>	(400.0) %

**Financial Analysis of the District's Funds**

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

**Table A-4  
Major Funds**

	Fund Balance		Increase (Decrease)	Percentage Increase (Decrease)
	2019	2018		
<b>Governmental Funds</b>				
General	\$ 4,289,356	\$ 4,472,387	\$ (183,031)	(4.1) %
Building Construction	136,285	29,176	107,109	367.1
Community Service	184,740	135,262	49,478	36.6

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2019**

---

General Fund

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

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

**Table A-5  
General Fund Revenue**

	<u>2019</u>	<u>2018</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Local Sources				
Interest Earnings	\$ 118,820	\$ 61,801	\$ 57,019	92.3 %
Other	4,616,652	4,714,095	(97,443)	(2.1)
State Sources	3,010,219	2,622,798	387,421	14.8
Federal Sources	2,867,172	2,165,943	701,229	32.4
Other	2,698	57,069	(54,371)	(95.3)
Total General Fund Revenue	<u>\$ 10,615,561</u>	<u>\$ 9,621,706</u>	<u>\$ 993,855</u>	10.3 %

Total general fund revenue increased by \$993,855 or 10.3 percent from the previous year.

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

**Table A-6  
General Fund Expenditures**

	<u>2019</u>	<u>2018</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 5,893,788	\$ 5,427,575	\$ 466,213	8.6 %
Employee Benefits	1,628,454	1,521,305	107,149	7.0
Purchased Services	2,094,432	1,722,645	371,787	21.6
Supplies and Materials	209,916	189,152	20,764	11.0
Capital Expenditures	1,143,398	564,686	578,712	102.5
Other Expenditures	85,104	91,755	(6,651)	(7.2)
Total General Fund Expenditures	<u>\$ 11,055,092</u>	<u>\$ 9,517,118</u>	<u>\$ 1,537,974</u>	16.2 %

Total general fund expenditures increased by \$1,537,974 or 16.2 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in April 2018. During the year ended June 30, 2019, 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 \$1,759,511 and the actual results for the year show a deficit of \$183,031.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2019**

---

**Capital Assets**

Capital Assets

Note 3 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2019. Additions totaling \$6,376,775 mainly consisted of a new building, site improvements, and a vehicle. The District also had disposals of \$279,510 which consisted of a \$13,000 sale of land, a garage, computer and audio/visual equipment, copiers, instructional equipment, and a vehicle.

**Factors Bearing on the District's Future**

The District has been serving nine (9) member districts and four (4) associate districts in a variety of capacities with a student enrollment of 10,234 – up approximately 1,002 students from the previous year. Student enrollment increases were primarily due to the Frazee school district becoming an associate member effective July 2018.

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

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 our allocation. Due to the Pine-to-Prairie ABE chapter dissolving, Freshwater was able to add Wadena and Todd County school to the ABE program. 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, business office, special education Level IV classrooms, special education office 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. While Freshwater has annually been committing general funds for future facility improvements, Freshwater received a level IV strategic investment award of five million dollars from a third-party governmental unit. The new facility is located at 2222 Industrial Dr. Wadena, MN 56482. The lease levy will continue to decrease over the next year due to moving into the new Freshwater Facility.

**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 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, 2019**

GOVERNMENTAL ACTIVITIES

ASSETS

Cash and Investments	\$ 4,402,257
Accounts Receivable	95,922
Due From MN School Districts	801,797
Due From Department of Education	732,736
Due From Federal Govt. - DOE	895,789
Due from Other Governments	23,235
Prepaid Expenses	1,063

Capital Assets

Land	61,579
Capital Assets, Net of Accumulated Depreciation	<u>6,586,864</u>

TOTAL ASSETS

13,601,242

DEFERRED OUTFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan	7,148,845
Other Postemployment Benefit	<u>76,988</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES

7,225,833

LIABILITIES

Accounts Payable	920,957
Salaries Payable	503,959
Payroll Deductions	405,494
Due to Other Govt Units	7,292
Due to Other MN Districts	504,716

Long-Term Liabilities

Vacation Payable	64,938
Total Other Postemployment Benefit Liability	419,237
Net Pension Liability	<u>5,824,701</u>
Total Long-Term Liabilities	<u>6,308,876</u>

TOTAL LIABILITIES

8,651,294

DEFERRED INFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan	9,069,559
Other Postemployment Benefit	<u>74,885</u>

TOTAL DEFERRED INFLOWS OF RESOURCES

9,144,444

NET POSITION

Net Investment in Capital Assets	6,648,443
Restricted	
Teacher Development	4,703
Basic Skills	331,105
Medical Assistance	34,231
Other	147,997
Community Education	36,959
ECFE	38,125
School Readiness	49,242
Adult Basic Education	41,726
Community Service	18,688
Building Construction	136,285
Unrestricted	<u>(4,456,167)</u>

TOTAL NET POSITION

\$ 3,031,337

The notes to basic financial statements are an integral part of this statement.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	\$ 533,565	\$ 318,288	\$	\$	\$ (215,277)
District Support Services	192,780				(192,780)
Elementary & Secondary					
Regular Instruction	1,425,793	1,565,284	501,439		640,930
Vocational Education Instruction	293,617		292,120		(1,497)
Special Education Instruction	4,328,617	2,232,198	4,331,908		2,235,489
Community Education and Services	612,091	644,534			32,443
Instructional Support Services	371,890	99,901	46,768		(225,221)
Pupil Support Services	167,000	107,211	11,479		(48,310)
Sites and Buildings	250,962	101,319		5,000,000	4,850,357
Fixed Costs	18,914				(18,914)
Depreciation- Unallocated	48,097				(48,097)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 8,243,326</b>	<b>\$ 5,068,735</b>	<b>\$ 5,183,714</b>	<b>\$ 5,000,000</b>	<b>7,009,123</b>
<b>GENERAL REVENUES</b>					
Unrestricted State Aid					358,783
Unrestricted Investment Earnings					118,820
Gain on Sale of Capital Asset					256,500
Other General Revenue					211,833
<b>TOTAL GENERAL REVENUES</b>					<b>945,936</b>
Change in Net Position					7,955,059
Net Position - Beginning					(4,923,722)
Net Position - Ending					<b>\$ 3,031,337</b>

The notes to basic financial statements are an integral part of this statement.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2019**

	General Fund	Building Construction Fund	Community Service Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 4,018,472	\$ 177,603	\$ 206,182	\$ 4,402,257
Accounts Receivable	95,922			95,922
Due From MN School Districts	757,087		44,710	801,797
Due From Department of Education	732,736			732,736
Due From Federal Govt. - DOE	895,789			895,789
Due From Other Governments	18,022		5,213	23,235
Prepaid Expenses	1,063			1,063
<b>TOTAL ASSETS</b>	<b>\$ 6,519,091</b>	<b>\$ 177,603</b>	<b>\$ 256,105</b>	<b>\$ 6,952,799</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 864,159	\$ 41,318	\$ 15,480	\$ 920,957
Salaries Payable	453,489		50,470	503,959
Due to Other Govt Units	7,292			7,292
Due to Other MN Districts	499,301		5,415	504,716
Payroll Deductions	405,494			405,494
<b>TOTAL LIABILITIES</b>	<b>2,229,735</b>	<b>41,318</b>	<b>71,365</b>	<b>2,342,418</b>
<b>FUND BALANCES</b>				
Nonspendable: Prepaid	1,063			1,063
Restricted for Teacher Development	4,703			4,703
Restricted for Basic Skills	331,105			331,105
Restricted for Medical Assistance	34,231			34,231
Restricted for Other	147,997			147,997
Restricted for Community Education			36,959	36,959
Restricted for ECFE			38,125	38,125
Restricted for School Readiness			49,242	49,242
Restricted for Adult Basic Education			41,726	41,726
Restricted for Community Service			18,688	18,688
Restricted for Building Construction		136,285		136,285
Committed for Severance	256,118			256,118
Committed for Facility Improvements	420,586			420,586
Committed for E-Rate	128,880			128,880
Assigned for Copier Replacement	15,812			15,812
Assigned for Wellness	1,029			1,029
Unassigned	2,947,832			2,947,832
<b>TOTAL FUND BALANCES</b>	<b>4,289,356</b>	<b>136,285</b>	<b>184,740</b>	<b>4,610,381</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,519,091</b>	<b>\$ 177,603</b>	<b>\$ 256,105</b>	<b>\$ 6,952,799</b>

The notes to basic financial statements are an integral part of this statement.

**FRESHWATER EDUCATION DISTRICT NO. 6004**

**WADENA, MINNESOTA**

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

**June 30, 2019**

---

Total fund balances - governmental funds \$ 4,610,381

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	7,611,407
Less accumulated depreciation	(962,964)

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.

7,225,833

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

Vacation Payable	(64,938)
Total Other Postemployment Benefit Liability	(419,237)
Net Pension Liability	(5,824,701)

Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

(9,144,444)

Net position - governmental activities \$ 3,031,337

The notes to basic financial statements are an integral part of this statement.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2019**

	General Fund	Building Construction Fund	Community Service Fund	Total Governmental Funds
<b>REVENUES</b>				
Other Local & County Revenues	\$ 4,735,472	\$ 5,000,000	\$ 661,218	\$ 10,396,690
Revenue From State Sources	3,010,219			3,010,219
Revenue From Federal Sources	2,867,172			2,867,172
Sale/Other Conversion of Asset	2,698			2,698
<b>TOTAL REVENUES</b>	<u>10,615,561</u>	<u>5,000,000</u>	<u>661,218</u>	<u>16,276,779</u>
<b>EXPENDITURES</b>				
Current				
Administration	507,791			507,791
District Support Services	181,125			181,125
Elementary & Secondary Regular Instruction	1,404,914			1,404,914
Vocational Instruction	293,617			293,617
Special Education Instruction	6,819,686			6,819,686
Community Education and Services			596,937	596,937
Instructional Support Services	341,952			341,952
Pupil Support Services	165,253			165,253
Sites and Buildings	178,442			178,442
Fixed Costs	18,914			18,914
Capital Outlay	1,143,398	4,892,891	14,803	6,051,092
<b>TOTAL EXPENDITURES</b>	<u>11,055,092</u>	<u>4,892,891</u>	<u>611,740</u>	<u>16,559,723</u>
Revenues Over (Under) Expenditures	(439,531)	107,109	49,478	(282,944)
<b>OTHER FINANCING SOURCES</b>				
Sale of Capital Assets	256,500			256,500
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>256,500</u>			<u>256,500</u>
Net Change in Fund Balances	(183,031)	107,109	49,478	(26,444)
Fund Balances - Beginning	4,472,387	29,176	135,262	4,636,825
Fund Balances - Ending	<u>\$ 4,289,356</u>	<u>\$ 136,285</u>	<u>\$ 184,740</u>	<u>\$ 4,610,381</u>

The notes to basic financial statements are an integral part of this statement.

**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, 2019**

---

Total net change in fund balances - governmental funds \$ (26,444)

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	5,979,062
Depreciation expense	(164,018)

The loss on disposal of capital assets decreases net position. (24,119)

Change in net pension liability. 10,817,109

Changes in deferred outflows and inflows of resources related to net pension liability. (8,667,430)

Changes in deferred outflows and inflows of resources related to other postemployment benefit liability. (52,996)

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	80,918
Vacation payable	<u>12,977</u>

Change in net position - governmental activities \$ 7,955,059

The notes to basic financial statements are an integral part of this statement.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
For the Year Ended June 30, 2019**

---

	<u>Health Reimbursement Arrangement</u>
ASSETS	
Cash and Investments	\$ <u>965,575</u>
TOTAL ASSETS	<u>965,575</u>
LIABILITIES	
Other Payables	<u>965,575</u>
TOTAL LIABILITIES	\$ <u><u>965,575</u></u>

The notes to basic financial statements are an integral part of this statement.

**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 fiduciary fund. The fiduciary fund is only reported in the statement of fiduciary net position at the fund financial statement level.

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

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

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

**D. Measurement Focus and Basis of Accounting**

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

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

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

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

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

**Description of Funds**

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

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019**

---

**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**

Agency Fund – The Agency Fund is used to account for transactions of the District's health reimbursement arrangement.

**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

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

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, 2019 and 2018 was \$64,938 and \$77,915, respectively. The liability for all employees consists of twenty and seventeen individuals as of June 30, 2019 and 2018, respectively.

Sick leave is earned up to eleven 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. Approximately \$5,930 was credited in 2019 for three individuals and \$1,116 was credited in 2018 for one individual.

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 2018.

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element,

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

*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. The first item, *Cost Sharing Defined Benefit Pension Plan*, represents actuarial differences within PERA and TRA pension plans. The second item, *Other Postemployment Benefits* which represents actuarial difference with OPEB plans.

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

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

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

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

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

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

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

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

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

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

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

**F. Use of Estimates**

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

**NOTE 2 DEPOSITS AND INVESTMENTS**

The District maintains a cash account at its depository bank.

The District’s interest income for the year ended June 30, 2019, was \$118,820.

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

	Governmental Activities	Fiduciary Funds	Total
Cash	\$ 381,947	\$ 36,943	\$ 418,890
Investments	4,020,310	928,632	4,948,942
Total	\$ 4,402,257	\$ 965,575	\$ 5,367,832

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

As of June 30, 2019, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

<u>Investment</u>	<u>Fair Value (Level 1)</u>
Minnesota School District Liquid Asset Fund	\$4,948,942

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

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

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

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

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor's.

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

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2019, the District was not exposed to custodial credit risk.

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

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Construction in Process	\$ 397,713	\$	\$ 397,713	\$
Land	74,579		13,000	61,579
Total Capital Assets, Not Being Depreciated	<u>472,292</u>		<u>410,713</u>	<u>61,579</u>
Capital Assets, Being Depreciated:				
Site Improvements		510,011		510,011
Buildings	491,999	5,684,960	4,987	6,171,972
Equipment	947,564	181,804	261,523	867,845
Total Capital Assets, Being Depreciated	<u>1,439,563</u>	<u>6,376,775</u>	<u>266,510</u>	<u>7,549,828</u>
Less Accumulated Depreciation For:				
Site Improvements		12,750		12,750
Buildings	385,359	82,898	3,590	464,667
Equipment	668,978	68,370	251,801	485,547
Total Accumulated Depreciation	<u>1,054,337</u>	<u>164,018</u>	<u>255,391</u>	<u>962,964</u>
Total Capital Assets, Being Depreciated, Net	<u>385,226</u>	<u>6,212,757</u>	<u>11,119</u>	<u>6,586,864</u>
Governmental Activities Capital Assets, Net	<u>\$ 857,518</u>	<u>\$ 6,212,757</u>	<u>\$ 421,832</u>	<u>\$ 6,648,443</u>

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

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

Administration	\$ 11,270
District Support Services	11,655
Special Education Instruction	19,825
Community Education and Services	1,551
Instructional Support Services	18,819
Pupil Support Services	1,747
Sites and Buildings	51,054
	<hr/>
	115,921
Unallocated	48,097
Total Depreciation Expense	<u>\$ 164,018</u>

**NOTE 4 DEFINED BENEFIT PENSION PLANS- STATEWIDE**

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

Disclosures relating to these plans follow:

**A. Public Employees Retirement Association**

Plan Description – The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (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.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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 2019 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, 2019, were \$104,437. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2019, the District reported a liability of \$1,087,328 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$35,591. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0196% at the end of the measurement period and 0.0196% for the beginning of the period.

District's proportionate share of net pension liability	\$ 1,087,328
State of Minnesota's proportionate share of the net pension liability associated with the District	35,591
Total	<u>\$ 1,122,919</u>

For the year ended June 30, 2019, the District recognized pension expense of \$22,044 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional \$8,300 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, 2019, 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:

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 28,779	\$ 32,521
Difference between projected and actual investment earnings		107,135
Changes in actuarial assumptions	106,517	122,171
Changes in proportion		21,682
Contributions paid to PERA subsequent to the measurement date	104,437	
Total	<u>\$ 239,733</u>	<u>\$ 283,509</u>

\$104,437 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, 2020. 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
2020	\$ 30,201
2021	(67,490)
2022	(88,229)
2023	(22,695)

Actuarial Assumptions – The total pension liability in the June 30, 2018, 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, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2018:

Changes in Actuarial Assumptions:

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

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 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.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 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.

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	36.00%	5.10%
International Stocks	17.00%	5.30%
Bonds (Fixed Income)	20.00%	0.75%
Alternative Assets (Private Markets)	25.00%	5.90%
Cash	2.00%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2018 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%)
\$ 1,767,047	\$ 1,087,328	\$ 526,239

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019**

---

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

**B. Teachers Retirement Association**

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

Educators employed in Minnesota’s public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State’s Individual Retirement Account Plan (IRAP) within one year of eligible employment.

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

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

Tier I Benefits:

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

With these provisions:

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

or

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

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

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, 2017, June 30, 2018, and June 30, 2019, were:

	June 30, 2017		June 30, 2018		June 30, 2019	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%	11.00%	11.71%
Coordinated	7.50%	7.50%	7.50%	7.50%	7.50%	7.71%

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

Employer contributions reported in TRA's CAFR	<i>in thousands</i>
Statement of Changes in Fiduciary Net Position	\$ 378,728
Add employer contributions not related to future contribution efforts	522
Deduct TRA's contributions not included in allocation	(471)
Total employer contributions	<u>378,779</u>
Total non-employer contributions	<u>35,588</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$ 414,367</u>

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

Actuarial Assumptions - The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2018
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Price Inflation	2.50%
Wage Growth Rate	2.85% for 10 years and 3.25% thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25 – 9.25% thereafter
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption

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

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	Allocations as of June 30, 2018	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.00%	36.00%	5.10%
International Equity	16.00%	17.00%	5.30%
Private Markets	25.00%	25.00%	5.90%
Fixed Income	16.00%	20.00%	0.75%
Treasuries	8.00%	0.00%	0.50%
Unallocated Cash	2.00%	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.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

Changes in actuarial assumptions since the 2017 valuation:

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

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 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, 2019, the District reported a liability of \$4,737,373 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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 0.0754% at the end of the measurement period and 0.0771% 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	\$	4,737,373
State's proportionate share of the net pension liability associated with the District	\$	445,030

For the year ended June 30, 2019, the District recognized pension expense of \$(1,593,231). It also recognized \$(310,602) as a decrease to pension expense for the support provided by direct aid.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

On June 30, 2019, 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	\$ 62,830	\$ 97,404
Net difference between projected and actual earnings on plan inv.		392,369
Changes in actuarial assumptions	6,102,368	8,113,200
Changes in proportion	399,310	183,077
Contributions paid to TRA subsequent to the measurement date	344,604	
Total	<u>\$ 6,909,112</u>	<u>\$ 8,786,050</u>

\$344,604 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, 2020. 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
2020	\$ 529,818
2021	328,178
2022	23,059
2023	(1,786,365)
2024	(1,316,232)

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

Sensitivity of the Net Pension Liability (NPL) to Changes in the Discount Rate		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.50%)
\$ 7,518,192	\$ 4,737,373	\$ 2,443,216

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

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

The District recognized total pension expense of \$(1,571,187) for all of the pension plans in which it participates.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019**

---

**NOTE 5 OTHER POSTEMPLOYMENT BENEFITS**

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The District provides full single coverage healthcare for a retiring principal or teacher until Medicare eligibility. All principals and teachers have a service requirement of three years.

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

Employees Covered by Benefit Term – At June 30, 2019, 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	<u>120</u>

Total OPEB Liability – The District's total OPEB liability of \$419,237 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2018.

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 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 White Collar 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 3.62%.

In the June 30, 2018 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2019**

---

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2018	\$ 500,155
Changes for the year:	
Service Cost	18,942
Interest Cost	17,254
Differences Between Expected and Actual Experience	(82,692)
Changes in Assumptions	26,233
Employer Contributions	(60,655)
Net Changes	(80,918)
Balance at 6/30/2019	\$ 419,237

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 (2.62 percent) or one percentage point higher (4.62 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.62%)	Current (3.62%)	1% Increase (4.62%)
\$ 428,245	\$ 419,237	\$ 409,226

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)
\$ 412,681	\$ 419,237	\$ 426,801

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2019, the District recognized OPEB expense of \$27,510. At June 30, 2019, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 69,970
Changes in actuarial assumptions	22,197	4,915
Employer contributions paid subsequent to the measurement date	54,791	
Total	<u>\$ 76,988</u>	<u>\$ 74,885</u>

\$54,791 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, 2020.

Year Ending June 30	OPEB Expense Amount
2020	\$ (10,442)
2021	(10,442)
2022	(10,089)
2023	(8,686)
2024	(8,686)
2025	(4,343)

**NOTE 6 LONG-TERM LIABILITIES**

Changes in the District's long-term liabilities for the year ended June 30, 2019 are as follows:

**Summary of Long-Term Liabilities**

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Vacation Payable	\$ 77,915	\$	\$ 12,977	\$ 64,938	\$
Total Long-Term Liabilities	<u>\$ 77,915</u>	<u>\$</u>	<u>\$ 12,977</u>	<u>\$ 64,938</u>	<u>\$</u>

The vacation payable is generally liquidated by the general fund.

**NOTE 7 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.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

**NOTE 8 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: 1) group medical plan, 2) dependent care expense reimbursement account, 3) health care expense reimbursement plan, or 4) employee and dependent-only 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.

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 9 403(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 .50 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. Thirty-six employees were participating during the year ended June 30, 2019; the District’s matching contributions totaled \$30,390.

**NOTE 10 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, 2017. The annual commitment under the lease is \$14,220. The District must provide custodial services during the term of the lease.

The District entered into a commitment with Central Lakes College in Staples to lease office and classroom space for the five-year period beginning July 1, 2017 through June 20, 2022. The annual commitment is \$38,000.

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 2018-2019 year.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

**NOTE 11 COMMITMENTS**

At June 30, 2019, the District had commitments totaling approximately \$168,000 under a construction contract for which the work was not yet completed.

**NOTE 12 CONTINGENCIES**

The Federal Communications Commission (FCC) is the federal agency that administers the universal service Schools and Libraries Program, commonly known as E-rate. The FCC is challenging E-rate reimbursements paid to three member districts of which District staff were serving as consortium lead. The FCC believes those services should have been performed by an outside party. No resolution has been reached, but the District believes the maximum loss to be approximately \$129,000.

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, 2019.

**NOTE 13 RISK MANAGEMENT**

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

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

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

**NOTE 14 JOINT VENTURES**

In 2003 Tri County Hospital and the District jointly planned and designed the purchase of a shared wide area network (WAN) to provide data, voice and video services to the communities of Wadena, Sebeka, Menahga, Verndale, Bertha, Deer Creek and Henning. In 2005, the District negotiated an additional agreement with Lakewood Health System in Staples to expand the WAN to the east and offer connections to additional communities including Pillager, Motley, Staples, Browerville, Clarissa and Eagle Bend. A service level agreement for the period July 1, 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.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

In 2018, the District was awarded a five million dollar grant from Sourcewell to be used toward construction costs of a new Setting IV facility in Wadena, Minnesota to house its educational services. The District agrees that it will not convert the facility to a non-educational use or sell or liquidate within ten years of completion. If the District converts, sells, or liquidates the facility with the ten year period, the grant must be repaid.

**NOTE 15 NEW PRONOUNCEMENTS**

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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 December 15, 2019. 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, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2019**

---

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, 2020. 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, 2019**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>REVENUES</b>				
Other Local & County Revenues	\$ 4,483,762	\$ 4,066,577	\$ 4,735,472	\$ 668,895
Revenue From State Sources	2,311,236	2,473,792	3,010,219	536,427
Revenue From Federal Sources	2,743,552	3,062,984	2,867,172	(195,812)
Sale/Other Conversion of Asset	<u>2,743,552</u>	<u>2,529</u>	<u>2,698</u>	<u>169</u>
<b>TOTAL REVENUES</b>	<u>12,282,102</u>	<u>9,605,882</u>	<u>10,615,561</u>	<u>1,009,679</u>
<b>EXPENDITURES</b>				
Current				
Administration	502,744	510,092	507,791	(2,301)
District Support Services	150,705	184,774	181,125	(3,649)
Elementary & Secondary Regular Instruction	1,767,757	1,747,384	1,404,914	(342,470)
Vocational Education Instruction	291,912	291,184	293,617	2,433
Special Education Instruction	6,915,790	7,029,771	6,819,686	(210,085)
Instructional Support Services	292,404	325,129	341,952	16,823
Pupil Support Services	194,513	199,318	165,253	(34,065)
Sites and Buildings	200,505	193,710	178,442	(15,268)
Fixed Costs	19,820	18,921	18,914	(7)
Capital Outlay	<u>180,218</u>	<u>865,110</u>	<u>1,143,398</u>	<u>278,288</u>
<b>TOTAL EXPENDITURES</b>	<u>10,516,368</u>	<u>11,365,393</u>	<u>11,055,092</u>	<u>(310,301)</u>
Revenues Over (Under) Expenditures	1,765,734	(1,759,511)	(439,531)	1,319,980
<b>OTHER FINANCING SOURCES</b>				
Sale of Capital Assets	<u>                    </u>	<u>                    </u>	<u>256,500</u>	<u>256,500</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>                    </u>	<u>                    </u>	<u>256,500</u>	<u>256,500</u>
Net Change in Fund Balances	1,765,734	(1,759,511)	(183,031)	1,576,480
Fund Balances - Beginning	<u>4,472,387</u>	<u>4,472,387</u>	<u>4,472,387</u>	<u>                    </u>
Fund Balances - Ending	<u>\$ 6,238,121</u>	<u>\$ 2,712,876</u>	<u>\$ 4,289,356</u>	<u>\$ 1,576,480</u>

The notes to required supplementary information are an integral part of this schedule.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE COMMUNITY SERVICE FUND**  
**For the Year Ended June 30, 2019**

---

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
REVENUES				
Other Local & County Revenues	\$ 655,165	\$ 655,771	\$ 661,218	\$ 5,447
TOTAL REVENUES	<u>655,165</u>	<u>655,771</u>	<u>661,218</u>	<u>5,447</u>
EXPENDITURES				
Current				
Community Education and Services	623,363	629,100	596,937	(32,163)
Capital Outlay	<u>25,522</u>	<u>24,937</u>	<u>14,803</u>	<u>(10,134)</u>
TOTAL EXPENDITURES	<u>648,885</u>	<u>654,037</u>	<u>611,740</u>	<u>(42,297)</u>
Net Change in Fund Balances	6,280	1,734	49,478	47,744
Fund Balances - Beginning	<u>135,262</u>	<u>135,262</u>	<u>135,262</u>	
Fund Balances - Ending	<u>\$ 141,542</u>	<u>\$ 136,996</u>	<u>\$ 184,740</u>	<u>\$ 47,744</u>

The notes to required supplementary information are an integral part of this schedule.

**FRESHWATER EDUCATION DISTRICT NO. 6004****WADENA, MINNESOTA****SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS****Last 10 Years**

---

	<u>2018</u>	<u>2019</u>
Total OPEB Liability		
Service Cost	\$ 20,634	\$ 18,942
Interest	15,204	17,254
Differences Between Expected and Actual Experience		(82,692)
Changes in Assumptions	(8,427)	26,233
Benefit Payments	<u>(80,159)</u>	<u>(60,655)</u>
Net Change in Total OPEB Liability	(52,748)	(80,918)
Total OPEB Liability - Beginning	<u>552,903</u>	<u>500,155</u>
Total OPEB Liability - Ending	<u>\$ 500,155</u>	<u>\$ 419,237</u>
Covered Payroll	\$ 4,265,960	\$ 4,327,586
District's Total OPEB Liability as a Percentage of a Covered Payroll	11.72%	9.69%

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

The notes to required supplementary information are an integral part of this schedule.

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

	<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Statutorily Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Statutorily Required</u> <u>Contributions</u>	<u>Contribution Deficiency</u> <u>(Excess)</u>	<u>District's Covered</u> <u>Payroll</u>	<u>Contributions as a</u> <u>Percentage of Covered</u> <u>Payroll</u>
<b>PERA</b>						
	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
<b>TRA</b>						
	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

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

The notes to required supplementary information are an integral part of this schedule.

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

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

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

The notes to required supplementary information are an integral part of this schedule.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2019**

---

**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**

*2018 Changes*

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 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.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

*2017 Changes*

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The State's special funding contribution increased from \$6 million to \$16 million.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2019**

---

*2016 Changes*

Changes in Actuarial Assumptions:

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

*2015 Changes*

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

**TRA**

Changes in Actuarial Assumptions Since the 2016 Valuation:

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

Changes in actuarial assumptions since the 2017 valuation:

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

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2019**

---

- 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**

Assumption Changes:

- The discount rate was changed from 3.53% to 3.62% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality and salary increase rates were updated from the rates used in the 7/1/2015 PERA General Employees Retirement Plan and 7/1/2015 Teacher Retirement Association valuations to the rates used in the 7/1/2017 valuations.
- The percent of future teacher retirees eligible for a direct subsidy assumed to elect coverage at retirement changed from 0% to 25% to reflect recent plan experience.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
SCHEDULE OF CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2019**

	Balance Beginning of Year	Revenues	Expenditures	Sale of Capital Assets	Transfers	Balance End of Year
<b>Governmental Funds</b>						
General Fund						
Nonspendable	\$ 1,524	\$	\$	\$	\$ (461)	\$ 1,063
Restricted for:						
Teacher Development	4,703					4,703
Basic Skills	328,731	326,191	323,817			331,105
Medical Assistance	62,266	25,371	53,406			34,231
Restricted	121,961	2,937,664	2,911,628			147,997
Committed						
Severance	206,884	54,025	54,791		50,000	256,118
Facility Improvements	978,749	6,757	859,920	245,000	50,000	420,586
E-rate	128,880					128,880
Assigned for:						
Copier Replacement	17,207	5,534	6,662		(267)	15,812
Wellness	408	6	4		619	1,029
Unassigned	2,621,074	7,260,013	6,844,864	11,500	(99,891)	2,947,832
Community Service Fund						
Restricted for:						
Community Education	34,829	22,297	20,167			36,959
ECFE	43,550	169,943	175,368			38,125
School Readiness	24,140	274,409	249,307			49,242
Adult Basic Education	15,605	181,646	155,525			41,726
Community Service	17,138	12,923	11,373			18,688
Building Construction Fund						
Restricted: Building Construction	29,176	5,000,000	4,892,891			136,285

This page intentionally left blank

## 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 the remaining fund information of Freshwater Education District No. 6004 as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2019.

### **Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. 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.

### **Purpose of the Report**

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



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

December 30, 2019

This page intentionally left blank

**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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 30, 2019.

## **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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The District's Response to Findings**

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

## **Purpose of this Report**

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



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

December 30, 2019

## **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, 2019. 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, 2019.

## 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.

### Purpose of the Report

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



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

December 30, 2019

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2019**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Passed Through to Subrecipients	Amount
<u>U.S. Department of Education</u>			
Passed-Through Minnesota Department of Education:			
<i>Special Education (IDEA) Cluster:</i>			
Special Education Grants to States	84.027	\$ 568,692	\$ 2,442,334
Special Education Preschool Grants	84.173	172	111,137
Passed-Through MN School District- Sourcewell District No. 924:			
<i>Special Education (IDEA) Cluster:</i>			
Special Education Grants to States	84.027	<u>                    </u>	<u>13,174</u>
<i>Total Special Education (IDEA) Cluster:</i>		568,864	2,566,645
Passed-Through Minnesota Department of Education:			
Carl Perkins Career and Technical	84.048	191,145	244,154
Special Education Grants for Infants and Families	84.181		54,607
Passed-Through MN School District- St. Cloud School District No. 742:			
Adult Basic Education	84.002	<u>                    </u>	<u>1,766</u>
Total U.S. Department of Education		<u>760,009</u>	<u>2,867,172</u>
TOTAL FEDERAL AWARDS		<u>\$ 760,009</u>	<u>\$ 2,867,172</u>

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2019**

---

**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, 2019. The information in this Schedule is presented in accordance with the requirements of the 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.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2019**

---

**Section I-Summary of Auditor's Results**

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified?

yes  none reported

Noncompliance material to financial statements noted?

yes  no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified?

yes  none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes  no

Identification of major programs:

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

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

\$750,000

Auditee qualified as low-risk auditee?

yes  no

FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
June 30, 2019

---

**Section II-Financial Statement Findings**

**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

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. 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 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

For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

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

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

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

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2019**

---

**2018-001 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, 2018, 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 2017-001.

Recommendation

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

Corrective Action Taken

No action taken. See current year finding 2019-001 and Corrective Action Plan.

**FRESHWATER EDUCATION DISTRICT NO. 6004  
WADENA, MINNESOTA  
CORRECTIVE ACTION PLAN  
For the Year Ended June 30, 2019**

---

**2019-001 FINDING**

Contact Person – Business Manager

Corrective Action Plan – School district personnel will receive additional training to better prepare personnel to understand the financial statements and to work more closely with an accounting firm in the preparation of the financial statements. The District staff will review the prior year journal entries to determine training needs. The District staff has worked with their auditors and the ESV Accounting Office and is in the process of identifying required year end journal entries.

Completion Date – Ongoing

**FRESHWATER EDUCATION DISTRICT NO. 6004**  
**WADENA, MINNESOTA**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE**  
**June 30, 2019**

District Name:	FRESHWATER EDUCATION DISTRICT NO. 6004			District Number:	6004		
	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	10,615,561	10,615,560	1	Total Revenue	5,000,000	5,000,000	
Total Expenditures	11,055,092	11,055,092		Total Expenditures	4,892,891	4,892,891	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	1,063	1,063		460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development				407 Capital Projects Levy			
406 Health & Safety				413 Projects Funded By COP			
407 Capital Projects Levy				467 LTFM			
408 Cooperative Revenue				<i>Restricted</i>			
409 Alternative Fac Program				464 Restricted Fund Balance	136,285	136,285	
413 Project Funded by COP				<i>Unassigned:</i>			
414 Operating Debt				463 Unassigned Fund Balance			
416 Levy Reduction				Reconciliation of Building Construction	<u>10,029,176</u>	<u>10,029,176</u>	
417 Taconite Building Maintenance							
423 Certain Teacher Programs				<b>07 DEBT SERVICE</b>			
424 Operating Capital				Total Revenue			
426 \$25 Taconite				Total Expenditures			
427 Disabled Accessibility				<i>Non Spendable</i>			
428 Learning & Development				460 Non Spendable Fund Balance			
434 Area Learning Center				<i>Restricted/Reserved:</i>			
435 Contracted Alt Programs				425 Bond Refundings			
436 State Approved Alt Program				433 Max Effort Loan			
438 Gifted & Talented				451 QZAB Payments			
440 Teacher Development and Eval	4,703	4,703		<i>Restricted</i>			
441 Basic Skills Programs	331,105	331,105		464 Restricted Fund Balance			
445 Career and Technical Programs				<i>Unassigned:</i>			
448 Achievement and Integration				463 Unassigned Fund Balance			
449 Safe Schools Levy				Reconciliation of Debt Service			
450 Prekindergarten							
452 OPEB Liab Not In Trust				<b>08 TRUST</b>			
459 Basic Skills Ext Time				Total Revenue			
467 LTFM				Total Expenditures			
472 Medical Assistance	34,231	34,231		<i>Unassigned:</i>			
<i>Restricted</i>				422 Unassigned Fund Balance			
464 Restricted Fund Balance	147,997	147,997		Reconciliation of Trust			
475 Title VII - Impact Aid							
<i>Committed</i>				<b>20 INTERNAL SERVICE</b>			
418 Committed for Separation	256,118	256,118		Total Revenue			
461 Committed	549,466	549,466		Total Expenditures			
<i>Assigned</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	16,841	16,841		422 Unassigned Fund Balance			
<i>Unassigned:</i>				Reconciliation of Internal Service			
422 Unassigned Fund Balance	2,947,832	2,947,830	2				
Reconciliation of General	<u>25,960,009</u>	<u>25,960,006</u>	<u>3</u>	<b>25 OPEB REVOCABLE TRUST FUND</b>			
<b>02 FOOD SERVICE</b>				Total Revenue			
Total Revenue				Total Expenditures			
Total Expenditures				<i>Unassigned:</i>			
<i>Non Spendable</i>				422 Unassigned Fund Balance			
460 Non Spendable Fund Balance				Reconciliation of OPEB Revocable Trust			
<i>Restricted/Reserved:</i>							
452 OPEB Liab Not In Trust				<b>45 OPEB IRREVOCABLE TRUST FUND</b>			
<i>Restricted</i>				Total Revenue			
464 Restricted Fund Balance				Total Expenditures			
<i>Unassigned:</i>				<i>Unassigned:</i>			
463 Unassigned Fund Balance				422 Unassigned Fund Balance			
Reconciliation of Food Service				Reconciliation of OPEB Irrevocable Trust			
<b>04 COMMUNITY SERVICE</b>				<b>47 OPEB DEBT SERVICE FUND</b>			
Total Revenue	661,218	661,218		Total Revenue			
Total Expenditures	611,740	611,740		Total Expenditures			
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance				460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted</i>			
426 \$25 Taconite				425 Bond Refunding			
431 Community Education	36,959	36,958	1	464 Restricted Fund Balance			
432 E.C.F.E.	38,125	38,125		<i>Unassigned:</i>			
440 Teacher Development and Eval				463 Unassigned Fund Balance			
444 School Readiness	49,242	49,242		Reconciliation of OPEB Debt Service			
447 Adult Basic Education	41,726	41,725	1				
452 OPEB Liab Not In Trust							
<i>Restricted</i>							
464 Restricted Fund Balance	18,688	18,688					
<i>Unassigned:</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	<u>1,457,698</u>	<u>1,457,696</u>	<u>2</u>				