

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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THIEF RIVER FALLS, MINNESOTA
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THIEF RIVER FALLS, MINNESOTA
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**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2016**

Mike Spears	Chairman
Misty Hempel	Vice-Chairman
Wayne Nomeland	Clerk
Kevin Ballard	Treasurer
Jon Lindgren	Director
Chris Melbye	Director
Shannon Boen	Director
Tanya Monson-Ek	District Business Manager
Laine Larson	Superintendent (through 6/30/2016)
Bradley Bergstrom	Superintendent (as of 07/01/2016)



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We did not audit the financial statements of the discretely presented component unit; those statements were audited by other auditors.

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 did not audit the financial statements of the Thief River Falls Economic Development Association, LLC (TRF EDA), which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for TRF EDA, is based solely on the report of the other auditors. 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. The financial statements of the TRF EDA were not audited in accordance with *Government Auditing Standards*. 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of June 30, 2016, 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, and schedules as listed in the table of contents as required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 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 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 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

October 24, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

This section of Independent School District No. 564's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

For the year ending June 30, 2016, the District's unassigned fund balance decreased from \$3,939,498 to \$3,587,716 or a decrease of \$351,782.

Overview of the Financial Statements

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

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

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

District-wide Statements

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

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

The component unit is included in the basic financial statements and consists of a legally separated entity for which Independent School District No. 564 is financially accountable and has the majority of the governing board positions being appointed by Independent School District No. 564. The discretely presented component unit of Independent School District No. 564 is the Thief River Falls Economic Development Association, LLC.

The government-wide financial statements are noted in the table of contents.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was \$(3,285,723) on June 30, 2016 (see details in Table A-1). This was a decrease of 1386.5 percent from the prior year. This significant decrease is due to depreciation expense on new assets that are depreciated with the Building Bond capital projects.

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

	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 34,050,119	\$ 34,388,605	(1.0) %
Capital Assets	<u>43,744,999</u>	<u>45,132,647</u>	(3.1)
Total Assets	<u>77,795,118</u>	<u>79,521,252</u>	(2.2)
Deferred Outflows of Resources	<u>2,832,096</u>	<u>2,234,118</u>	26.8
Long-term Liabilities	66,325,393	65,356,222	1.5
Other Liabilities	<u>3,540,880</u>	<u>2,898,447</u>	22.2
Total Liabilities	<u>69,866,273</u>	<u>68,254,669</u>	2.4
Deferred Inflows of Resources	<u>14,046,664</u>	<u>13,245,295</u>	6.1
Net Position			
Net Investment in Capital Assets	12,518,167	14,255,614	(12.2)
Restricted	1,488,408	1,353,254	10.0
Unrestricted	<u>(17,292,298)</u>	<u>(15,353,462)</u>	12.6
Total Net Position	<u>\$ (3,285,723)</u>	<u>\$ 255,406</u>	(1,386.5) %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

Change in Net Position

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

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

	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 1,409,552	\$ 1,375,395	2.5 %
Operating Grants and Contributions	4,743,145	4,727,639	0.3
Capital Grants and Contributions	348,905	365,480	(4.5)
General Revenues			
Property Taxes	4,618,113	4,798,527	(3.8)
Unrestricted State Aid	14,280,683	13,689,100	4.3
Other Sources	867,525	477,923	81.5
Total Revenues	<u>26,267,923</u>	<u>25,434,064</u>	3.3
Expenses			
Administration	1,497,596	1,385,640	8.1
District Support Services	540,134	514,915	4.9
Elementary & Secondary Regular Instruction	9,641,682	9,265,300	4.1
Vocational Education Instruction	435,947	483,388	(9.8)
Special Education Instruction	3,217,090	3,092,881	4.0
Community Education and Services	833,314	717,445	16.2
Instructional Support Services	1,325,028	1,133,501	16.9
Pupil Support Services	3,711,839	2,737,284	35.6
Sites and Buildings	6,286,959	5,701,971	10.3
Fixed Costs	87,547	91,521	(4.3)
Interest on Long-Term Debt	1,768,393	1,796,193	(1.5)
Depreciation - Unallocated	463,523	463,523	-
Total Expenses	<u>29,809,052</u>	<u>27,383,562</u>	8.9
Change in Net Position	(3,541,129)	(1,949,498)	(81.6)
Net Position - Beginning	<u>255,406</u>	<u>2,204,904</u>	(88.4)
Net Position - Ending	<u>\$ (3,285,723)</u>	<u>\$ 255,406</u>	(1,386.5) %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

The District's total revenues were \$26,267,923 for the year ended June 30, 2016. Property taxes and state aid payments accounted for 86 percent of total revenue for the year.

The total cost of all programs and services was \$29,809,052. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position \$3,541,129 over last year.

Financial Analysis of the District's Funds

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

**Table A-3
Major Funds**

	Fund Balance		Increase (Decrease)	Percentage Increase (Decrease)
	2016	2015		
Governmental Funds				
General	\$ 5,533,754	\$ 5,143,941	\$ 389,813	7.6 %
Debt Service Fund	605,070	940,981	(335,911)	(35.7)
Capital Project	245,952	1,712,794	(1,466,842)	(85.6)

The Capital Project Fund Balance decreased significantly which is due to the fact that the capital projects are nearing full completion.

General Fund

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

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

Table A-4
General Fund Revenue

	<u>2016</u>	<u>2015</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Local Sources				
Property Taxes	\$ 1,811,395	\$ 1,842,460	\$ (31,065)	(1.7) %
Interest Earnings	15,568	8,699	6,869	79.0
Other	1,242,929	906,580	336,349	37.1
State Sources	17,533,740	16,994,210	539,530	3.2
Federal Sources	858,300	905,200	(46,900)	(5.2)
Other	8,648	2,319	6,329	272.9
Total General Fund Revenue	<u>\$ 21,470,580</u>	<u>\$ 20,659,468</u>	<u>\$ 811,112</u>	3.9 %

Total general fund revenue increased by \$811,112 or 3.9 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

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

Table A-5
General Fund Expenditures

	<u>2016</u>	<u>2015</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 13,587,955	\$ 13,137,675	\$ 450,280	3.4 %
Employee Benefits	3,475,970	3,637,059	(161,089)	(4.4)
Purchased Services	2,055,248	1,767,725	287,523	16.3
Supplies and Materials	1,131,848	1,135,494	(3,646)	(0.3)
Capital Expenditures	803,582	1,123,960	(320,378)	(28.5)
Debt Service	321,519	283,807	37,712	13.3
Other Expenditures	166,494	159,285	7,209	4.5
Total General Fund Expenditures	<u>\$ 21,542,616</u>	<u>\$ 21,245,005</u>	<u>\$ 297,611</u>	1.4 %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016**

General Fund Budgetary Highlights

During the year the District revised its budget.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$735,260. The actual results for the year show a surplus of \$389,813.

- Actual revenue amounts were higher than budgeted in all areas, specifically in state revenues and other local revenues.
- The District is monitoring and controlling expenses.

Capital Assets and Debt Administration

Capital Assets

Note 5 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2016. Additions totaling \$667,412 consisted of building improvements, site improvements, and equipment.

Long-Term Debt

At year-end, the District had \$68,444,437 of long-term debt. This consisted of bonded indebtedness net of premiums and discounts of \$51,437,778, energy service payable of \$873,990, capital lease payable of \$634,854, accrued interest payable of \$696,377, severance payable of \$44,407 and net pension liability of \$14,757,031. Note 9 to the financial statements present details and payment provisions of these items.

Factors Bearing on the District's Future

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

- Results of future labor contract negotiations will affect expenditure levels. Salaries and benefits account for 79% of general fund expenditures.
- The District has had to borrow in the past due to the state of Minnesota's general education aid and property tax shifts. The state of Minnesota's economic outlook improved in 2012-2013. As a result, school districts have now been repaid the general education revenue shift back to the normal level of 90 percent reimbursement. This has a positive impact on the District's cash flows and eliminates the need to borrow funds to fund normal operations.

Contacting the District's Financial Management

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2016

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
ASSETS		
Cash and Investments	\$ 7,331,353	\$ 80,310
Restricted Cash		480,443
Property Taxes Receivable, Net of Allowance	2,282,840	
Accounts Receivable	694,997	
Due From MN School Districts	21,842	
Due From Department of Education	2,077,643	
Due From Federal Govt. - DOE	135,150	
Prepaid Expenses	470,129	
Inventory	46,234	
Net Other Postemployment Benefit Asset	979,537	
Note Receivable - USBCDC	20,010,394	
Capital Assets		
Land, Construction in Process	791,656	
Other Capital Assets, Net of Depreciation	42,953,343	23,737,878
Other Assets		
Intangible Assets, Net of Accumulated Amortization		885,992
TOTAL ASSETS	<u>77,795,118</u>	<u>25,184,623</u>
DEFERRED OUTFLOWS OF RESOURCES		
Accrued Revenue		6,739,373
Cost Sharing Defined Benefit Pension Plan	2,832,096	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,832,096</u>	<u>6,739,373</u>
LIABILITIES		
Accounts Payable	473,911	
Accrued Expenses		10,448
Due To Other MN School Districts	51,996	
Due To Other Governmental Units	99	
Payroll Deductions	194,089	
Interest Payable	599,242	69,500
Vacation Payable	102,499	
Long-Term Liabilities Due Within One Year	2,119,044	
Long-Term Liabilities		
Bonds, Net Unamortized Premiums (Discounts)	51,437,778	
Capital Lease Payable	634,854	
Energy Service Payable	873,990	
Notes Payable - MMCDC		18,800,000
Notes Payable - USBCDE		9,000,000
Interest Payable	696,377	
Severance Payable	44,407	
Net Pension Liability	14,757,031	
Less Amounts Due Within One Year	(2,119,044)	
Total Long-Term Liabilities	<u>66,325,393</u>	<u>27,800,000</u>
TOTAL LIABILITIES	<u>69,866,273</u>	<u>27,879,948</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2016**

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Rent Payable	6,739,373	
Property Taxes Levied - Subs. Years	5,411,680	
Cost Sharing Defined Benefit Pension Plan	<u>1,895,611</u>	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>14,046,664</u>	
NET POSITION		
Net Investment in Capital Assets	12,518,167	
Restricted for:		
Health & Safety	25,682	
Operating Capital	662,771	
Deferred Maintenance	47,349	
Food Service	201,158	
Community Education	130,329	
ECFE	37,901	
School Readiness	24,036	
Community Service	25,146	
Capital Project	235,169	
OPEB Debt Service	33,936	
District Programs	32,199	
Permanent Fund - Non Expendable	7,732	
Permanent Fund - Expendable	25,000	
Unrestricted	(17,292,298)	
Member's Equity		<u>4,044,048</u>
TOTAL NET POSITION	<u>\$ (3,285,723)</u>	<u>\$ 4,044,048</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit TRF EDA
PRIMARY GOVERNMENT						
GOVERNMENTAL ACTIVITIES						
Administration	\$ 1,497,596	\$	\$	3,593	\$ (1,494,003)	\$
District Support Services	540,134			3,280	(536,854)	
Elementary & Secondary						
Regular Instruction	9,641,682	266,196	1,580,967	161,602	(7,632,917)	
Vocational Education Instruction	435,947		28,112		(407,835)	
Special Education Instruction	3,217,090	5,789	1,924,186		(1,287,115)	
Community Education and Services	833,314	451,072	197,897		(184,345)	
Instructional Support Services	1,325,028	53,278	308,818	21,327	(941,605)	
Pupil Support Services	3,711,839	604,996	703,165	73,446	(2,330,232)	
Sites and Buildings	6,286,959	28,221		85,657	(6,173,081)	
Fixed Costs	87,547				(87,547)	
Interest on Long-Term Debt	1,768,393				(1,768,393)	
Depreciation - Unallocated	463,523				(463,523)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 29,809,052	\$ 1,409,552	\$ 4,743,145	\$ 348,905	(23,307,450)	
COMPONENT UNIT:						
TRF EDA	\$ 1,352,873	\$ 2,067,502	\$	\$		714,629
GENERAL REVENUES						
Taxes						
Property Taxes, Levied for General Purposes					1,805,979	
Property Taxes, Levied for Community Education and Services					155,592	
Property Taxes, Levied for Debt Services					2,424,461	
Property Taxes, Levied for OPEB Debt Services					232,081	
Unrestricted State Aid					14,280,683	
Unrestricted Investment Earnings					30,184	
Gain on Sale of Capital Asset					5,710	
Other General Revenue					831,631	
TOTAL GENERAL REVENUES					19,766,321	
Change in Net Position					(3,541,129)	714,629
Equity Distributions						(20,000)
Net Position - Beginning					255,406	3,349,419
Net Position - Ending					\$ (3,285,723)	\$ 4,044,048

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Debt Service Fund	Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 4,298,287	2,393,963	21,285	\$ 617,818	\$ 7,331,353
Current Property Taxes Receivable	863,782	1,267,315		159,918	2,291,015
Delinquent Property Taxes Receivable	17,350	63,195		13,280	93,825
Accounts Receivable	648,786			46,211	694,997
Due From MN School Districts	21,842				21,842
Due From Department of Education	2,035,018	9,954		32,671	2,077,643
Due From Federal Govt. - DOE	52,232			82,918	135,150
Prepaid Expenses	234,960		235,169		470,129
Inventory				46,234	46,234
TOTAL ASSETS	\$ 8,172,257	\$ 3,734,427	\$ 256,454	\$ 999,050	\$ 13,162,188
LIABILITIES					
Accounts Payable	\$ 460,324	\$	\$ 10,502	\$ 3,085	\$ 473,911
Due To Other MN School Districts	51,996				51,996
Due To Other Governmental Units	99				99
Payroll Deductions	150,162			43,927	194,089
TOTAL LIABILITIES	662,581		10,502	47,012	720,095
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	17,350	63,195		13,280	93,825
Property Taxes Levied - Subs. Years	1,958,572	3,066,162		386,946	5,411,680
TOTAL DEFERRED INFLOWS OF RESOURCES	1,975,922	3,129,357		400,226	5,505,505
FUND BALANCES					
Fund Balance:					
Nonspendable: Prepaid	234,960		235,169		470,129
Nonspendable: Inventory				46,234	46,234
Nonspendable: Scholarships				25,000	25,000
Restricted for Health & Safety	25,682				25,682
Restricted for Operating Capital	662,771				662,771
Restricted for Deferred Maintenance	47,349				47,349
Restricted for Capital Project			10,783		10,783
Restricted for School Readiness				24,036	24,036
Restricted for Food Service				154,924	154,924
Restricted for Community Education				130,329	130,329
Restricted for ECFE				37,901	37,901
Restricted for Community Service				25,146	25,146
Restricted for OPEB Debt Service				68,311	68,311
Restricted for Debt Service		605,070			605,070
Restricted for Scholarships				7,732	7,732
Restricted for District Programs				32,199	32,199
Committed for Severance	44,407				44,407
Assigned for Technology	930,869				930,869
Unassigned	3,587,716				3,587,716
TOTAL FUND BALANCES	5,533,754	605,070	245,952	551,812	6,936,588
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,172,257	\$ 3,734,427	\$ 256,454	\$ 999,050	\$ 13,162,188

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016

Total fund balances - governmental funds	\$ 6,936,588
Amounts reported for governmental activities in the statement of position are different because:	
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	65,440,537
Less accumulated depreciation	(21,695,538)
Net other postemployment benefit assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	979,537
Deferred outflows 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.	2,832,096
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(51,664,458)
Capital lease payable	(634,854)
Energy service payable	(873,990)
Unamortized premiums (discounts)	226,680
Severance payable	(44,407)
Net Pension Liability	(14,757,031)
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.	(1,895,611)
Vacation payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(102,499)
Notes receivable are not available to pay for current period expenditures and, therefore, are not reported as an asset in the governmental funds.	20,010,394
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds.	93,825
An allowance has been set up for taxes receivable in the government-wide financial statements.	(102,000)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(1,295,619)
Deferred rent payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	<u>(6,739,373)</u>
Net position - governmental activities	<u>\$ (3,285,723)</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General Fund	Debt Service Fund	Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local Property Tax Levies	\$ 1,811,395	\$ 2,420,956	\$	\$ 386,848	\$ 4,619,199
Other Local & County Revenues	1,258,497	6,854	6,468	486,160	1,757,979
Revenue From State Sources	17,533,740	99,535		251,768	17,885,043
Revenue From Federal Sources	858,300			567,454	1,425,754
Sale/Other Conversion of Asset	8,648			553,176	561,824
TOTAL REVENUES	21,470,580	2,527,345	6,468	2,245,406	26,249,799
EXPENDITURES					
Current					
Administration	1,493,435				1,493,435
District Support Services	540,134				540,134
Elementary & Secondary					
Regular Instruction	9,441,442			3,900	9,445,342
Vocational Education Instruction	432,463				432,463
Special Education Instruction	3,217,090				3,217,090
Community Education and Services				833,314	833,314
Instructional Support Services	1,325,028				1,325,028
Pupil Support Services	1,469,957			1,135,518	2,605,475
Sites and Buildings	2,410,420				2,410,420
Fixed Costs	87,547				87,547
Debt Service					
Principal	272,925	1,485,000		152,403	1,910,328
Interest	48,593	1,378,256		88,747	1,515,596
Capital Outlay	803,582		1,473,310	5,891	2,282,783
TOTAL EXPENDITURES	21,542,616	2,863,256	1,473,310	2,219,773	28,098,955
Revenues Over (Under) Expenditures	(72,036)	(335,911)	(1,466,842)	25,633	(1,849,156)
OTHER FINANCING SOURCES (USES)					
Debt Issued	461,139				461,139
Sale of Fixed Assets	5,710				5,710
Transfers In				5,000	5,000
Transfers Out	(5,000)				(5,000)
TOTAL OTHER FINANCING SOURCES (USES)	461,849			5,000	466,849
Net Change in Fund Balances	389,813	(335,911)	(1,466,842)	30,633	(1,382,307)
Fund Balances - Beginning	5,143,941	940,981	1,712,794	521,179	8,318,895
Fund Balances - Ending	\$ 5,533,754	\$ 605,070	\$ 245,952	\$ 551,812	\$ 6,936,588

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
 THIEF RIVER FALLS, MINNESOTA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2016**

Total net change in fund balances - governmental funds \$ (1,382,307)

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

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

Capital outlays	667,412
Depreciation expense	(2,055,060)

Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	1,910,328
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The issuance of long-term debt provides current financial resources to the governmental funds, but the issuance increases long-term liabilities in the statement of net position.	(461,139)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Also, governmental funds report the effect of premiums and discounts when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(252,797)
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Operating leases with contractual rate increases are recognized equally over the life of the lease in the statement of activities. In the governmental funds, the expenditure is recognized when due.	(1,790,263)
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Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(1,086)
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Change in net pension liability	(2,418,363)
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Change in deferred outflows and inflows of resources related to net pension liability	2,435,174
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In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)

Vacation payable	(6,061)
Other postemployment benefits	(188,867)
Severance payable	<u>1,900</u>

Change in net position - governmental activities	\$ <u>(3,541,129)</u>
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The notes to basic financial statements are an integral part of this statement.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016**

	<u>OPEB Trust Fund</u>
ASSETS	
Investments	\$ <u>1,520,449</u>
TOTAL ASSETS	<u>1,520,449</u>
NET POSITION	
Held in Trust for OPEB	\$ <u><u>1,520,449</u></u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
 THIEF RIVER FALLS, MINNESOTA
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the Year Ended June 30, 2016**

	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	\$ <u>27,155</u>
TOTAL ADDITIONS	<u>27,155</u>
DEDUCTIONS	
Benefits	<u>163,764</u>
TOTAL DEDUCTIONS	<u>163,764</u>
Change in Net Position	(136,609)
Net Position Held in Trust for OPEB - Beginning	<u>1,657,058</u>
Net Position Held in Trust for OPEB - Ending	<u>\$ <u>1,520,449</u></u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Reporting Entity

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

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

Extracurricular student activities are carried on primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's school board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in these basic financial statements.

C. Component Units

The discretely presented component unit includes the Thief River Falls Economic Development Association, LLC, which was created May 10, 2012. The Association was formed for the purposes of a joint enterprise and cooperative activity, consisting of improvement, expansion, renovation, remodeling and reconstruction of two educational facilities located in the city of Thief River Falls.

Independent School District No. 564 and Northwest Service Cooperative are the only members of the Thief River Falls Economic Development Association. Profits and losses are allocated 5% to Northwest Service Cooperative and 95% to Independent School District No. 564.

The Association's only activity is a lease of real property located in Thief River Falls, Minnesota to only one tenant, the District. Future operations could be affected by changes in the economic or other conditions that would affect the activities of the Association and the District. The Association has not experienced any losses on its lease to the District.

The Thief River Falls Economic Development Association did issue separate audited financial statements. Copies of the component unit's financial statements may be obtained from the Administration Offices, Independent School District No. 564, 230 LaBree Avenue South, Thief River Falls, MN 56701.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

D. Basic Financial Statement Presentation

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

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

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

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

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift". Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Revenue and expense attributable to leasing of the TRF EDA project are recognized using the straight-line method under which contractual rent increases are recognized equally over the terms of the lease. Rental revenue and expense recorded on the straight-line method in excess of the actual rents are recognized as accrued rent revenue and deferred rent payable.

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

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

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

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

Description of Funds

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

Major Governmental Funds

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

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

Capital Project Fund – Accounts for capital outlays related to the building construction project.

Nonmajor Governmental Funds

Special Revenue Funds:

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

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

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

Debt Service Funds:

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

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

Fiduciary Fund

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

F. Specific Account Information

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

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

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

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observed market based inputs or unobservable inputs that are corroborated by market data

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

Cash and Investments – Component Unit – Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for operating, asset management fees, loan interest, audit and tax, construction disbursement, and put reserves.

Taxes Receivable – Taxes receivable represents taxes levied in 2015 which are not payable until 2016, net of the amount received prior to June 30.

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

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

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

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

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

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

Capital assets not being depreciated include land and construction in progress, if any. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Intangible Assets – Component Unit – Intangible assets consist of lease acquisition costs and loan fees (the “Fees”) in the amount of \$927,685. The Fees are amortized on a straight-line basis over twenty-five years, the term of the loans and lease. As of June 30, 2016, accumulated amortization was \$156,351. For the year ending June 30, 2016, amortization expense was \$41,694, and amortization capitalized to fixed assets was \$0.

Revenue Recognition – Component Unit – Revenue attributable to leasing of the Project is recognized using the straight-line method under which contractual rent increases are recognized equally over the terms of the lease. Rental revenue recorded on the straight-line method in excess of the rents billed is recognized as accrued rent revenue.

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

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

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.

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. Additional information can be found in Note 6.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/ expenditure) until then. The District has one item that qualifies 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. In addition, the TRF EDA also has one item that will be recognized as a deferred outflow of resource, which arises from rental revenue that is recognized using the straight line basis.

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

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

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

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

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

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

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the power to assign fund balances to the Business Manager.

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

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

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

G. Use of Estimates

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

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NOTE 2 DEPOSITS AND INVESTMENTS

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

The District's interest income for the year ended June 30, 2016, was \$57,570.

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

	Governmental Activities	Fiduciary Fund	Total
Cash	\$ 200,000	\$	\$ 200,000
Investments	7,131,353	1,520,449	8,651,802
Total	<u>\$ 7,331,353</u>	<u>\$ 1,520,449</u>	<u>\$ 8,851,802</u>

As of June 30, 2016, the District had the following investments:

Investments	<u>Fair Value (Level 1)</u>
Minnesota School District Liquid Asset Fund	\$ 76,508
MnTrust	<u>8,575,294</u>
	<u>\$ 8,651,802</u>

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

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

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

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

- (a) Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.

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- (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, while the MnTrust is rated Aaa by Moody’s Investors Services.

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

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District’s board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2016, the District was not exposed to custodial credit risk.

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

NOTE 3 RESTRICTED CASH – COMPONENT UNIT

As of June 30, 2016, the Thief River Falls Economic Development Association’s restricted cash consisted of the following:

Audit and Tax Fee Reserve	\$ 41,740
Operating Reserves	6,000
MMCDC Reserves	384,694
USBCDC Reserves	48,009
	<u>\$ 480,443</u>

Concentration of Credit Risk – The Thief River Falls Economic Development Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. The Association believes it is not exposed to any significant credit risk on these accounts.

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NOTE 4 NOTE RECEIVABLE FROM USBCDC

As a result of the financing structure used to fund the improvement, expansion, renovation, remodeling and reconstruction of Lincoln High School and the District Service Center, the District borrowed \$20,010,394 to the Thief River Falls Investment Fund, wholly owned by US Bank Community Development Corporation (USBCDC). This arrangement was necessary to facilitate the new market tax credits used to finance part of the construction costs. The promissory note carries an annual interest rate of 1%. Accrued interest on note is payable quarterly by the last day of the months of March, June, September, and December. The entire outstanding principal balance plus all accrued and unpaid interest is due and payable on the maturity date of the note (July 10, 2020).

An investment fund put and call agreement was entered into on September 28, 2012 relating to this note. On the seventh anniversary date of this note, the District has the right and option to purchase USBCDC's interest in the note receivable.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 780,844	\$	\$	\$ 780,844
Construction in Progress		10,812		10,812
Total Capital Assets, Not Being Depreciated	<u>780,844</u>	<u>10,812</u>		<u>791,656</u>
Capital Assets, Being Depreciated:				
Land Improvements	1,221,092	42,420		1,263,512
Buildings	58,563,918	57,429		58,621,347
Equipment	4,567,164	556,751	359,893	4,764,022
Total Capital Assets, Being Depreciated	<u>64,352,174</u>	<u>656,600</u>	<u>359,893</u>	<u>64,648,881</u>
Less Accumulated Depreciation For:				
Land Improvements	736,658	30,905		767,563
Buildings	15,904,652	1,812,314		17,716,966
Equipment	3,359,061	211,841	359,893	3,211,009
Total Accumulated Depreciation	<u>20,000,371</u>	<u>2,055,060</u>	<u>359,893</u>	<u>21,695,538</u>
Total Capital Assets, Being Depreciated, Net	<u>44,351,803</u>	<u>(1,398,460)</u>		<u>42,953,343</u>
Governmental Activities Capital Assets, Net	<u>\$ 45,132,647</u>	<u>\$ (1,387,648)</u>	<u>\$</u>	<u>\$ 43,744,999</u>

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

Elementary & Secondary Regular Instruction	\$ 14,863
Vocational Education Instruction	3,484
Pupil Support Services	148,778
Sites and Buildings	<u>1,424,412</u>
	1,591,537
Unallocated	<u>463,523</u>
Total Depreciation Expense	<u>\$ 2,055,060</u>

Changes in capital assets for the discretely presented component unit for the period ending June 30, 2016 was as follows:

Component Unit:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Being Depreciated:				
Building	\$ 25,277,124	\$	\$	\$ 25,277,124
Equipment	<u>729,755</u>	<u>160,343</u>	<u>729,755</u>	<u>160,343</u>
Total Capital Assets, Being Depreciated	<u>26,006,879</u>	<u>160,343</u>	<u>729,755</u>	<u>25,437,467</u>
Less Accumulated Depreciation:	<u>1,347,400</u>	<u>777,879</u>	<u>425,690</u>	<u>1,699,589</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 24,659,479</u>	<u>\$ (617,536)</u>	<u>\$ 304,065</u>	<u>\$ 23,737,878</u>

NOTE 6 DEFINED BENEFIT PENSION PLANS- STATEWIDE

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

Disclosures relating to these plans follow:

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description – The District participates in the following 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.

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General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50% of pay, respectively, in fiscal year 2016. The District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were \$322,973. The District's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs – At June 30, 2016, the District reported a liability of \$3,560,391 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, 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 received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0687 % which was a decrease of 0.0018% from its proportion measured as of June 30, 2014.

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GERF benefit provision changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to *Minnesota Statutes* to make changes to contribution rates less prescriptive and more flexible.

The discount rate used to calculate liabilities for the June 30, 2015, measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of \$360,456 for its proportionate share of GERF's pension expense.

At June 30, 2016, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 33,883	\$ 179,504
Changes in actuarial assumptions	227,538	-
Changes in proportion	-	63,416
Difference between projected and actual investment earnings	-	334,075
Contributions paid to PERA subsequent to the measurement date	322,973	
Total	<u>\$ 584,394</u>	<u>\$ 576,995</u>

\$322,973 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2017	\$ (89,709)
2018	(89,710)
2019	(220,418)
2020	84,263

Actuarial Assumptions – The total pension liability in the June 30, 2015, actual valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 20, 2008, with an

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update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic 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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate – The Discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 (6.9%)	Current (7.9%)	1% Increase (8.9%)
\$ 5,598,199	\$ 3,560,391	\$ 1,877,473

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 report may be obtained on the Internet at www.mnpera.org; or by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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.

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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.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the city of St. Paul and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

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

With these provisions:

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

or

Tier II Benefits:

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

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

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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, 2016 and June 30, 2016, were:

	<u>Employee</u>	<u>Employer</u>
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

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	
Statement of Changes in Fiduciary Net Position	\$ 340,207,590
Deduct employer contributions not related to future contribution efforts	(704,635)
Deduct TRA's contributions not included in allocation	<u>(435,999)</u>
Total employer contributions	339,066,956
Total non-employer contributions	<u>41,587,410</u>
Employer contributions reported in schedule of employer and non-employer pension allocations	<u>\$ 380,654,366</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.

Merger of Duluth Teacher's Retirement Fund Association (DTRFA) – Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Association (DTRFA) with TRA effective June 30, 2016. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA:

	<u>June 30, 2014 CAFR</u>	<u>Restated</u>
Total Pension Liability	\$ 24,901,612,000	\$ 25,299,564,000
Plan Fiduciary Net Position	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net Pension Liability	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

Actuarial Assumptions - The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Measurement Date	June 30, 2015
Valuation Date	July 1, 2015
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	8.0%
Wage Inflation	3.0%
Projected Salary Increase	3.5 – 12%, based on years of service
Cost of Living Adjustment	2.0%

Mortality Assumption

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	2%	0.50%

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year is 2015 is 5.73 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” use the amortization period of 5.73 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a

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period of 5 years as required by GASB 68. The "Changes in Proportion" uses a rounded amortization period of 5.0 years.

Discount Rate - The discount rate used to measure the total pension liability was 8.0 percent. This is a decrease from the discount rate at the prior measurement date of 8.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 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 projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

Net Pension Liability - On June 30, 2016, the District reported a liability of \$11,196,640 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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 0.1810% at the end of the measurement period and 0.1959% 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	\$	11,196,640
State's proportionate share of the net pension liability associated with the district	\$	1,373,365

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to increase from 2.0 percent annually with no increase to 2.5 percent projected. The prior year valuation assumed a 2.5 percent increase commencing July 1, 2034.

For the year ended June 30, 2016, the District recognized pension expense of \$646,617. It also recognized \$242,793 as an increase to pension expense for the support provided by direct aid.

On June 30, 2016, 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	\$ 620,068	\$
Net difference between projected and actual earnings on plan inv.		1,018,233
Changes in actuarial assumptions	860,724	
Changes in proportion	67,591	300,383
Contributions paid to TRA subsequent to the measurement date	699,319	
Total	\$ <u>2,247,702</u>	\$ <u>1,318,616</u>

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\$699,319 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Pension Expense</u>
2017	\$ (144,174)
2018	(144,174)
2019	(144,174)
2020	527,809
2021	134,480

Pension Liability Sensitivity - The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent as well as the liability measured using one percent lower and one percent higher.

District Proportionate Share of NPL		
1% Decrease	Current (8.0%)	1% Increase
(7.0%)	(8.0%)	(9.0%)
\$ 17,042,736	\$ 11,196,640	\$ 6,317,905

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

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

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. At June 30, 2016, 42 retired employees and spouses were eligible to participate.

Summary of Significant Accounting Policies - Postemployment healthcare expenditures have been funded through contributions to an irrevocable trust and on a pay as you go basis in the future.

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

The District may contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial

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liabilities (or funding excess) over a period not to exceed thirty years. The pay as you go cost for OPEB benefits is \$344,259. The annual employer contributions were \$185,751 and \$158,508 was the implicit subsidy. These costs are recognized as an expense when claims or premiums are paid. The General Fund paid for \$158,508 15-16 cost and transferred \$185,751 from the OPEB trust fund.

Annual OPEB Cost and Net OPEB Obligation - The components of the District's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan were as follows:

	2016	2015	2014
Annual Required Contribution	\$ 344,259	\$ 344,259	\$ 346,437
Interest on Net OPEB Obligation	(40,894)	(41,829)	(49,059)
Adjustment to Annual Required Contribution	71,253	71,253	88,747
Annual OPEB Cost	374,618	373,683	386,125
Contributions or Payments Made	(185,751)	(346,965)	(179,568)
Increase in Net OPEB Obligation	188,867	26,718	206,557
Net OPEB Asset, Beginning of Year	(1,168,404)	(1,195,122)	(1,401,679)
Net OPEB Asset, End of Year	\$ (979,537)	\$ (1,168,404)	\$ (1,195,122)
Percentage of Annual OPEB Cost Contributed	49.6%	92.9%	46.5%

Funded Status and Funding Progress - The funded status of the Plan as of July 1, 2014, the date of the most recent actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	\$ 3,728,884
Actuarial Value of Assets	(1,635,595)
Unfunded AAL (UAAL)	\$ <u>2,093,289</u>
Funded Ratio	-43.9%
Covered Payroll	\$ 11,207,489
UAAL as % of Covered Payroll	18.7%

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are formed regarding the future. Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the District and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the District and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5% a year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment return on plan assets, and a base payroll growth rate of 2.5%. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed rate ranges from 7.5% to 5% for health care related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 30 years.

NOTE 8 CAPITAL LEASE PAYABLE

The District has entered into lease agreements as lessee for financing nine buses valued at \$995,415. The estimated life for a bus is 8 years. This year, \$147,356 was included in depreciation expense. These lease agreements qualify as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, are as follows:

Year Ending	Amount
<u>June 30</u>	
2017	\$ 210,342
2018	160,502
2019	142,905
2020	97,865
2021	<u>60,153</u>
Total Minimum Lease Payments	671,767
Less: Amount Representing Interest	<u>(36,913)</u>
Present Value of Minimum Lease Payments	<u>\$ 634,854</u>

NOTE 9 LONG-TERM LIABILITIES

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

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Summary of Long-Term Debt

Primary Government:	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
GO Cap Appr Bonds 2013A	\$ 6,089,458	\$		\$ 6,089,458	\$
GO Taxable OPEB Bond	1,865,000		150,000	1,715,000	155,000
GO Building Bond	45,345,000		1,485,000	43,860,000	1,645,000
Unamortized Discount	(378,031)		(28,545)	(349,486)	(28,545)
Unamortized Premium	135,091		12,285	122,806	12,285
Total Bonds	<u>53,056,518</u>	<u>-</u>	<u>1,618,740</u>	<u>51,437,778</u>	<u>1,783,740</u>
Energy Service Payable	1,005,769		131,779	873,990	137,394
Capital Lease Payable	317,264	461,139	143,549	634,854	198,089
Accrued Interest Payable	448,840	247,537		696,377	
Severance Payable	46,307		1,900	44,407	
Net Pension Liability	12,338,668	2,418,363		14,757,031	
Total Long-Term Liabilities	<u>\$ 67,213,366</u>	<u>\$ 3,127,039</u>	<u>\$ 1,895,968</u>	<u>\$ 68,444,437</u>	<u>\$ 2,119,223</u>

The District's interest expense for the year ended June 30, 2016, was \$1,766,219.

Accrued interest payable is generally liquidated by the debt service fund and severance payable and net pension liability are generally liquidated by the general fund.

Component Unit:	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Notes Payable	\$ 27,800,000	\$	\$	\$ 27,800,000	\$

The TRF EDA's interest expense for the year ended June 30, 2016 was \$278,000. The notes are secured by the project.

A. General Obligation Bonds

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2016
Capital Appreciation Bond	2013	3.5-4.1%	2026/31	\$ 6,089,458	\$	\$ 6,089,458
Taxable OPEB Bond	2009	4.0-5.2%	2017/25	2,410,000	150,000	1,715,000
Building Bond Series A	2012	3.3-5.4%	2027/33	18,615,000		18,615,000
Building Bond Series B	2012	1.25-3.0%	2017/25	21,500,000	1,380,000	19,630,000
Building Bond Series C	2012	3.0%	2017/26	7,775,000	105,000	5,615,000
						<u>\$ 51,664,458</u>

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Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2017	\$ 1,800,000	\$ 1,438,181
2018	1,965,000	1,405,651
2019	2,150,000	1,366,014
2020	2,360,000	1,316,654
2021	2,580,000	1,258,356
2022-2026	16,516,537	5,257,864
2027-2031	18,467,921	7,299,486
2032-2033	5,825,000	351,600
	<u>\$ 51,664,458</u>	<u>\$ 19,693,806</u>

B. Energy Service Payable

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2016
Energy Service Loan	2006	4.20%	2017/22	\$ 2,036,359	\$ 131,779	\$ 873,990

Annual debt service requirements to maturity are as follows:

June 30	Principal	Interest
2017	\$ 137,394	\$ 33,936
2018	143,248	28,082
2019	149,353	21,977
2020	155,717	15,613
2021	162,352	8,978
2022	125,926	2,571
	<u>\$ 873,990</u>	<u>\$ 111,157</u>

C. Notes Payable

Component Unit: Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2016
MMCDC Note A-1	2012	1.00%	2020	\$ 13,800,272		\$ 13,800,272
USBCDE Note A-2	2012	1.00%	2020	6,210,122		6,210,122
MMCDC Note B-1	2012	1.00%	2019/37	4,999,728		4,999,728
USBCDE Note B-2	2012	1.00%	2020/37	2,789,878		2,789,878
						<u>\$ 27,800,000</u>

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Annual minimum principal payments on the notes payable are as follows:

<u>June 30</u>	<u>Principal</u>
2017	\$
2018	
2019	400,000
2020	20,192,452
2021	420,627
Thereafter	<u>6,786,921</u>
	<u>\$ 27,800,000</u>

NOTE 10 INTERFUND TRANSFERS

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$5,000

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

NOTE 11 OPERATING LEASES

The District has an agreement with the City of Thief River Falls whereby the District agrees to lease the City's facilities. Payments under this lease agreement made by the District during the year ended June 30, 2016, totaled \$124,580.

NOTE 12 SEVERANCE PAY

The District has several severance pay plans for various groups of employees. The plans call for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2016, the estimated liability under these plans was \$44,407.

NOTE 13 JOINT POWERS AGREEMENT

In September of 2012, Independent School District No. 564 and Northwest Service Cooperative entered into a joint powers agreement to facilitate a project consisting of the improvement, expansion, renovation, remodeling, and reconstruction of two educational facilities for the use of the District, specifically, Lincoln High School and the Northwest Area Learning Center and District Service Center, the conveyance and leasing of the real property and improvements comprising the educational facilities, and certain construction and term loan financing for such activities.

Each entity will contribute to the joint operations in the following percentages:

Independent School District No. 564	95%
Northwest Service Cooperative	5%

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 14 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2016.

NOTE 15 RELATED PARTY ARRANGEMENTS

As a condition of the financing arrangement used by the District and its component unit, the TRF EDA, relating to the improvement, expansion, renovation, remodeling and reconstruction of two educational facilities ("Project"), the following lease arrangements were entered into during the year ended June 30, 2016:

A. Ground Lease

The District entered into a ground lease agreement with the Association for the Project, pursuant to which the District leased the Project to the Association. Pursuant to the ground lease, the Association agreed to pay the District rent in the amount of \$100. The amount was paid in a lump sum on September 28, 2012. The term of the ground lease is forty years from September 28, 2012 through October 1, 2052.

B. Lease

The District entered into a lease agreement with the Association for the Project, pursuant to which the Association sub-leased the Project to the District. Pursuant to the lease, the District pays quarterly base rent in varying amounts to the Association, in arrears on the first day of January, April, July, and October of each calendar year. The term of the lease is twenty-five years from September 28, 2012 through October 1, 2037. The District has the option to extend the lease for an additional term of five years commencing on October 2, 2037.

The future minimum lease payments due from the District are as follows:

Year Ending June 30		
2017	\$	300,166
2018		306,171
2019		312,294
2020		846,396
2021		2,431,536
2022-2026		12,843,615
2027-2031		14,180,394
2032-2036		15,656,299
2037-2038		<u>4,156,108</u>
	\$	<u>51,032,979</u>

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June 30, 2016**

NOTE 16 RISK MANAGEMENT

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

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

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

NOTE 17 SUBSEQUENT EVENTS

On September 30, 2016, the District issued \$9,965,000 General Obligation Crossover Refunding Bonds, Series 2016A. The interest rate on the bond is 2.0%-2.5% and the maturity date is February 1, 2033.

On September 30, 2016, the District issued \$1,300,000 Taxable General Obligation OPEB Refunding Bonds, Series 2016B. The interest rate on the bond is 1.35%-2.15% and the maturity date is February 1, 2025.

NOTE 18 NEW PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are

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June 30, 2016**

provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – and amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Over (Under)
	Original	Final		Final Budget
REVENUES				
Local Property Tax Levies	\$ 1,810,417	1,806,332	1,811,395	\$ 5,063
Other Local & County Revenues	679,551	656,527	1,258,497	601,970
Revenue From State Sources	16,945,175	17,295,451	17,533,740	238,289
Revenue From Federal Sources	854,859	820,825	858,300	37,475
Sale/Other Conversion of Asset	6,200	6,200	8,648	2,448
TOTAL REVENUES	<u>20,296,202</u>	<u>20,585,335</u>	<u>21,470,580</u>	<u>885,245</u>
EXPENDITURES				
Current				
Administration	1,476,358	1,492,520	1,493,435	915
District Support Services	559,013	559,789	540,134	(19,655)
Elementary & Secondary				
Regular Instruction	9,561,925	9,612,922	9,441,442	(171,480)
Vocational Education Instruction	414,295	407,537	432,463	24,926
Special Education Instruction	3,171,631	3,166,860	3,217,090	50,230
Instructional Support Services	1,128,583	1,157,285	1,325,028	167,743
Pupil Support Services	1,555,556	1,476,698	1,469,957	(6,741)
Sites and Buildings	2,521,698	2,467,128	2,410,420	(56,708)
Fixed Costs	174,209	172,711	87,547	(85,164)
Debt Service				
Principal	256,327	272,925	272,925	
Interest	46,479	48,593	48,593	
Capital Outlay	438,842	480,627	803,582	322,955
TOTAL EXPENDITURES	<u>21,304,916</u>	<u>21,315,595</u>	<u>21,542,616</u>	<u>227,021</u>
Revenues Over (Under) Expenditures	(1,008,714)	(730,260)	(72,036)	658,224
OTHER FINANCING SOURCES (USES)				
Debt Issued			461,139	461,139
Sale of Fixed Assets			5,710	5,710
Transfer Out	(10,000)	(5,000)	(5,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,000)</u>	<u>(5,000)</u>	<u>461,849</u>	<u>466,849</u>
Net Change in Fund Balances	(1,018,714)	(735,260)	389,813	1,125,073
Fund Balances - Beginning	5,143,941	5,143,941	5,143,941	
Fund Balances - Ending	<u>\$ 4,125,227</u>	<u>\$ 4,408,681</u>	<u>\$ 5,533,754</u>	<u>\$ 1,125,073</u>

The note to the required supplementary information is an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 564
 THIEF RIVER FALLS, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
 June 30, 2016**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2014	\$ 1,635,595	\$ 3,728,884	\$ 2,093,289	43.9 %	\$ 11,207,489	18.7 %
7/1/2012	1,996,342	4,015,297	2,018,955	49.7	10,446,090	19.3
7/1/2010	2,318,248	4,863,079	2,544,831	47.7	9,883,364	25.7
7/1/2008		4,752,008	4,752,008		10,023,183	47.4

Schedule of Employer Contributions:

<u>Fiscal Year</u>	<u>Actual Annual Contributions</u>	<u>Actual Required Contributions</u>	<u>Percentage Contribution</u>
2016	\$ 185,751	\$ 344,259	54.0 %
2015	346,965	344,259	100.8
2014	179,568	346,437	51.8
2013	191,089	346,437	55.2
2012	229,213	375,205	61.1
2011	235,464	375,205	62.8
2010	2,633,494	497,699	529.1
2009	313,682	497,699	63.0

The District implemented GASB No. 45 for fiscal year ended June 30, 2009. Information for prior years is not available.

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

<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
PERA					
2015	\$ 299,328	\$ 299,328	\$	\$ 4,038,246	7.41 %
2016	322,973	322,973		4,301,849	7.50 %
TRA					
2015	\$ 686,991	\$ 686,991	\$	\$ 9,159,858	7.50 %
2016	699,319	699,319		9,324,269	7.50 %

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
 THIEF RIVER FALLS, 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- Employee Payroll</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll</u>	<u>Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability</u>
PERA							
2014	0.0705 %	\$ 3,311,737	\$	\$ 3,311,737	\$ 3,738,454	88.58 %	78.70 %
2015	0.0687 %	3,560,391		3,560,391	4,038,246	88.17 %	78.19 %
TRA							
2014	0.1959 %	\$ 9,026,931	\$ 635,089	\$ 9,662,020	\$ 8,942,505	100.94 %	81.50 %
2015	0.1810 %	11,196,640	1,373,365	12,570,005	9,159,858	121.40 %	76.80 %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

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

TRA

Changes of benefit terms: The DTRFA was merged into TRA on June 30, 2015.

Change of assumptions: The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuations used 2% with an increase of 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. Details, if necessary, can be obtained from the TRA CAFR.

NOTE 3 EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2016, General Fund expenditures exceeded appropriations in the amount of \$227,021.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016

	Special Revenue Funds			Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund	OPEB Debt Service		
ASSETS						
Cash and Investments	\$ 70,779	\$ 283,072	\$ 32,199	\$ 199,036	\$ 32,732	\$ 617,818
Current Property Taxes Receivable		67,126		92,792		159,918
Delinquent Property Taxes Receivable		6,167		7,113		13,280
Accounts Receivable	2,936	43,275				46,211
Due From Department of Education	9,896	21,822		953		32,671
Due From Federal Govt. - DOE	82,918					82,918
Inventory	46,234					46,234
TOTAL ASSETS	\$ 212,763	\$ 421,462	\$ 32,199	\$ 299,894	\$ 32,732	\$ 999,050
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 1,832	\$ 1,253	\$	\$	\$	\$ 3,085
Payroll Deductions	9,773	34,154				43,927
TOTAL LIABILITIES	11,605	35,407				47,012
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue - Delinquent Taxes		6,167		7,113		13,280
Property Taxes Levied - Subs. Years		162,476		224,470		386,946
TOTAL DEFERRED INFLOWS OF RESOURCES		168,643		231,583		400,226
FUND BALANCES						
Fund Balance:						
Nonspendable: Inventory	46,234					46,234
Nonspendable: Scholarships					25,000	25,000
Restricted for Food Service	154,924					154,924
Restricted for School Readiness		24,036				24,036
Restricted for Community Education		130,329				130,329
Restricted for ECFE		37,901				37,901
Restricted for Community Service		25,146				25,146
Restricted for OPEB Debt Service				68,311		68,311
Restricted for Scholarships					7,732	7,732
Restricted for District Programs			32,199			32,199
TOTAL FUND BALANCES	201,158	217,412	32,199	68,311	32,732	551,812
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 212,763	\$ 421,462	\$ 32,199	\$ 299,894	\$ 32,732	\$ 999,050

INDEPENDENT SCHOOL DISTRICT NO. 564

THIEF RIVER FALLS, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2016

	Special Revenue Funds			Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund	OPEB Debt Service		
REVENUES						
Local Property Tax Levies	\$	\$ 155,292	\$	\$ 231,556	\$	\$ 386,848
Other Local & County Revenues	2,350	481,078	2,617		115	486,160
Revenue From State Sources	73,448	168,792		9,528		251,768
Revenue From Federal Sources	564,330	3,124				567,454
Sale/Other Conversion of Asset	549,811	3,365				553,176
TOTAL REVENUES	<u>1,189,939</u>	<u>811,651</u>	<u>2,617</u>	<u>241,084</u>	<u>115</u>	<u>2,245,406</u>
EXPENDITURES						
Current						
Elementary & Secondary						
Regular Instruction			3,500		400	3,900
Community Education and Services		833,314				833,314
Pupil Support Services	1,135,518					1,135,518
Debt Service						
Principal	2,403			150,000		152,403
Interest	247			88,500		88,747
Capital Outlay	3,231	2,660				5,891
TOTAL EXPENDITURES	<u>1,141,399</u>	<u>835,974</u>	<u>3,500</u>	<u>238,500</u>	<u>400</u>	<u>2,219,773</u>
Revenues Over (Under) Expenditures	48,540	(24,323)	(883)	2,584	(285)	25,633
OTHER FINANCING SOURCES						
Transfer In		5,000				5,000
TOTAL OTHER FINANCING SOURCES		<u>5,000</u>				<u>5,000</u>
Net Change in Fund Balances	48,540	(19,323)	(883)	2,584	(285)	30,633
Fund Balances - Beginning	152,618	236,735	33,082	65,727	33,017	521,179
Fund Balances - Ending	<u>\$ 201,158</u>	<u>\$ 217,412</u>	<u>\$ 32,199</u>	<u>\$ 68,311</u>	<u>\$ 32,732</u>	<u>\$ 551,812</u>

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
For the Year Ended June 30, 2016

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Sale of Property	Debt Issued, Net	UFARS Balance End of Year
Governmental Funds							
General Fund							
Nonspendable	\$	\$	\$	\$	234,960	\$	\$ 234,960
Restricted for:							
Staff Development		262,541	270,958	8,417			
Health and Safety	13,399	105,337	93,054				25,682
Deferred Maintenance		138,668	91,319				47,349
Operating Capital	786,268	616,554	1,201,190			461,139	662,771
Committed: Severance	46,307			(1,900)			44,407
Assigned for Technology	358,469			572,400			930,869
Unassigned	3,939,498	20,347,480	19,886,095	(818,877)	5,710		3,587,716
Food Service Fund							
Nonspendable	44,388			1,846			46,234
Restricted: Food Service	108,230	1,189,939	1,141,399	(1,846)			154,924
Community Service Fund							
Restricted for:							
Community Education	157,298	443,416	470,385				130,329
ECFE	35,546	140,596	138,241				37,901
School Readiness	22,747	197,560	201,271	5,000			24,036
Community Service	21,144	30,079	26,077				25,146
Capital Project Fund							
Nonspendable	69,283		69,283	235,169			235,169
Restricted: Capital Project	1,643,511	6,468	1,404,027	(235,169)			10,783
Gifts & Fundraising Fund							
Restricted: District Programs	33,082	2,617	3,500				32,199
Debt Service Fund							
Restricted: Debt Service	940,981	2,527,345	2,863,256				605,070
OPEB Debt Service Fund							
Restricted: OPEB Debt Service	65,727	241,084	238,500				68,311
Permanent Fund							
Nonspendable	25,000						25,000
Restricted: Scholarships	8,017	115	400				7,732
Fiduciary Fund							
OPEB Trust Fund							
Held in Trust for OPEB	1,657,058	27,155	163,764				1,520,449

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
GIFTS & FUNDRAISING FUND SCHEDULE
For the Year Ended June 30, 2016

	Fourtown Grygla	Franklin Pop	Lincoln High General	Challenger Playground	Hall of Fame	Total
FUND BALANCE - July 1	\$ 4,178	\$ 504	\$ 3,525	\$	\$ 24,875	\$ 33,082
REVENUES						
Interest Earned	15	2	12		88	117
Gifts and Fundraising	<u> </u>	<u> </u>	<u>2,500</u>	<u> </u>	<u> </u>	<u>2,500</u>
TOTAL REVENUES	<u>15</u>	<u>2</u>	<u>2,512</u>	<u> </u>	<u>88</u>	<u>2,617</u>
EXPENDITURES						
Scholarships	<u>1,000</u>	<u> </u>	<u>2,500</u>	<u> </u>	<u> </u>	<u>3,500</u>
TOTAL EXPENDITURES	<u>1,000</u>	<u> </u>	<u>2,500</u>	<u> </u>	<u> </u>	<u>3,500</u>
FUND BALANCE - June 30	<u>\$ 3,193</u>	<u>\$ 506</u>	<u>\$ 3,537</u>	<u>\$</u>	<u>\$ 24,963</u>	<u>\$ 32,199</u>

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Independent School District No. 564 as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2016. Our report includes a reference to other auditors who audited the financial statements for the Thief River Falls Economic Development Association, LLC, as described in our report on Independent School District No. 564's financial statements. The financial statements of the Thief River Falls Economic Development Association, LLC were not audited in accordance with the *Minnesota Legal Compliance Audit Guide for School Districts*.

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

October 24, 2016

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 24, 2016. Our report includes a reference to other auditors who audited the financial statements for the Thief River Falls Economic Development Association, LLC, as described in our report on Independent School District No. 564's financial statements. The financial statements of the Thief River Falls Economic Development Association, LLC were not audited in accordance with *Government Auditing Standards*.

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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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*.

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

October 24, 2016



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 564's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. 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, 2016.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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

October 24, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Amount
<u>U.S. Department of Education</u>		
Direct Programs:		
P.L.100-297 Indian Education	84.060	\$ 12,242
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	95,764
Title I	84.010	297,029
Special Education - Infants and Toddlers	84.181	7,503
<i>Special Education Cluster:</i>		
IDEA Part B 611	84.027	426,233
Preschool Incentives	84.173	15,930
<i>Total Special Education Cluster</i>		<u>442,163</u>
Passed-Through Pine to Prairie Cooperative:		
Carl Perkins	84.048A	<u>3,600</u>
Total Indirect		<u>846,059</u>
Total U.S. Department of Education		<u>858,301</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
Child Care Food Program	10.558	3,123
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	95,530
National School Lunch Program	10.555	334,729
After School Snacks	10.555	1,762
Commodity Distribution (Nonmonetary Assistance)	10.555	69,072
Summer Food Program	10.559	63,237
<i>Total Child Nutrition Cluster</i>		<u>564,330</u>
Total U.S. Department of Agriculture		<u>567,453</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,425,754</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 564 under programs of the federal government for the year ended June 30, 2016 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 564, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 564.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or 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. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 COMMODITY DISTRIBUTION

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

NOTE 4 PASS-THROUGH ENTITIES

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016**

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(s) identified?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

yes no

Significant deficiency(s) identified?

yes none reported

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

Unmodified

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

yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

Child Nutrition Cluster:

10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	After School Snacks
10.555	Commodity Distribution (Nonmonetary Assistance)
10.559	Summer Food Service Program for Children

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

\$750,000

Auditee qualified as low-risk auditee?

yes no

Section II-Financial Statement Findings

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

Section III- Federal Award Findings and Questioned Costs

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2016**

2015-001 FINDING

Special Education Cluster (Special Education Grants to States, CFDA No. 84.027; Special Education Preschool Grants, CFDA No. 84.173)

Criteria

The District must receive approval from the State of Minnesota to complete semi-annual certifications as a substitute option for time and effort reporting.

Condition

The District is using semi-annual certifications for all special education employees including employees who have split time between multiple activities. This is allowed by the substitute time and effort reporting, but must be approved by the State of Minnesota before being implemented.

Questioned Costs

None

Context

A sample of 7 employees were selected for audit from a population of 69 employees. Two of the 7 employees selected for testing did not receive approval from the State to use the substitute method of approving time and effort.

Cause

Following a change in directors of the program, the District was not aware that an application needed to be made in order to follow the guidance for a federal program.

Effect

Employee time charged to special education program may not be properly supported.

Recommendation

Review the grant requirements to ensure all requirements are being properly followed.

Corrective Action Taken

The District obtained approval from the State of Minnesota to complete semi-annual certifications as a substitute option for time reporting.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS

Members of the School Board, Advisors, and Students
Independent School District No. 564
Thief River Falls, Minnesota

We have audited the accompanying statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 564, for the year ended June 30, 2016, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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 statement.

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

Basis for Qualified Opinion

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded. The financial statement impact cannot be reasonably determined.

Qualified Opinion

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash transactions of the District's student activity accounts for the year ended June 30, 2016, and the cash balances at that date, in accordance with the cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 to the Student Activity Accounts Financial Statement, which describes the basis of accounting; this financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.



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

October 24, 2016

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS
(CONTINUED)
For the Year Ended June 30, 2016

	Fund Balance 6-30-15	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-16
<u>Lincoln High School</u>					
Area Learning Center	\$ 320	\$ 150	\$ 311	\$	\$ 159
Girls Swim-A-Thon	51				51
Band	255	1,570	550		1,275
Baseball Fundraising	60	19,112	13,022		6,150
Boys Basketball	162	6,100	6,155		107
Boys Golf		1,665	1,687	22	
Boys Swimming	17	824	837		4
Class of 2015	127			(127)	
Class of 2016	6,878	1,659	5,828	(2,709)	
Class of 2017	2,884		40		2,844
Class of 2018		3,725	2,733		992
Class of 2019		676	666		10
CoExist		302	224		78
College & Career		2,000	421		1,579
Clay Target League	175				175
Close Up	696	9,143	8,546	(270)	1,023
Counseling	10	9,565	7,300	(2,275)	
Community Action Club	269		85		184
Drama	789	1,834	1,211		1,412
Envirothon	209	4,815	5,494	490	20
F.F.A.	3,820	13,595	10,692		6,723
Football	10,109	16,399	16,169	(8,000)	2,339
German Club	3,002	12,759	11,735	270	4,296
Girls Basketball Fundraising		12,759	10,189	(1,200)	1,370
Girls Golf Fundraising	1,635	1,558	3,103		90
Girls Hockey Fundraising	92				92
Girls Swimming Fundraising	8,932	7,028	5,942		10,018
Girls Tennis	495	150	364		281
Interest	47	42		(47)	42
Math Counts	272		135		137
Math League	1,106		155		951
Miles Club	63	7,862	4,685	293	3,533
Multicultural Student Services	21	650	107	(293)	271
National Honor Society	2,115	4,796	4,941		1,970
Orchestra	13	698	711		
PE	65	1,765	1,823		7
Prom		12,610	7,995		4,615
Prowler Advertising	258	38,157	33,378	6,160	11,197
Prowler Fan Bus		2,688	3,293	605	
Prowler Potential	3,149	6,914	7,749	206	2,520
Retail Lab	4,646	510	4,368	4,050	4,838
Robotics		2,632	2,544	(23)	65
Science Fair	1,465		23		1,442
Softball Fundraising		1,028	1,411	383	
Special Education Fundraising	93				93
Special Student Activities	460	1,500	440		1,520
Special Olympics	1,002	500	268		1,234

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS
(CONTINUED)
For the Year Ended June 30, 2016

	Fund Balance 6-30-15	Receipts	Disbursements	Transfers In (Out)	6/30/2016
<u>Lincoln High School (Continued)</u>					
Speech	1,186	3,154	3,186		1,154
Student Activities	222	592			814
Student Senate	285	5,965	6,082	200	368
Tennis Fundraising	1,902		2,122	220	
Track Fundraising	29	1,094	403		720
T-shirt		1,000	1,810	1,200	390
Weight Room	1,141	4,482	5,788	165	
Wrestling Fundraising	1,665	675	2,200		140
Volleyball	1,475	635	2,531	680	259
Yearbook	3,891	3,540	7,431		
Total Lincoln High School	67,558	230,877	218,883		79,552
<u>Franklin Middle School</u>					
Activity Day	3,348	6,791	7,719		2,420
Sixth Grade Book Fair	7	4,796	5,677	891	17
Class of 2019	3,383		3,383		
Class of 2020	9,091	2,299	12,720	2,000	670
Class of 2021	1,715		4,666	10,109	7,158
Class of 2022		20,399	25,362	18,982	14,019
Geckler	15,692	46,908	26,755	(34,521)	1,324
Jazz Band	185	13,391	14,022		(446)
Prowler Plus	8,984	383	708	(2)	8,657
School Store	14,363	3,844	4,471	91	13,827
Science Fair	520	570	850		240
Student Council	(298)	2,208	2,890	1,450	470
Sunrise Singers	17				17
Turn Around	4,966	3,590	3,544	1,000	6,012
Yearbook	1,629	3,920	2,891		2,658
Total Franklin Middle School	63,602	109,099	115,658		57,043
<u>Challenger Elementary School</u>					
Book Project	32				32
Deep Portage	11,769	48,283	48,120		11,932
Student Community Account	4,883	864	737		5,010
Kindergarten Parties	658	336	631		363
Destination Imagination	118				118
Kids in Need	457		457		
Readathon	573				573
PE Activities	744	5,463	5,157		1,050
School Store	2,092	3,260	3,278		2,074
Science	959				959
Total Challenger Elementary School	22,285	58,206	58,380		22,111
Total All Funds	\$ 153,445	\$ 398,182	\$ 392,921	\$	\$ 158,706

The note to the student activity accounts financial statement is an integral part of this statement.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTE TO STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENT
June 30, 2016**

NOTE 1 STUDENT ACTIVITY ACCOUNTS

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the student activity funds are maintained, and the accompanying financial statements have been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board, Advisors, and Students
Independent School District No. 564
Thief River Falls, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the extracurricular student accounts of Independent School District No. 564, for the year ended June 30, 2016, and the related notes to the financial statement, and have issued our report thereon dated October 24, 2016, which was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records, therefore, we were unable to audit the cash collections beyond the amounts recorded.

Compliance

The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, pursuant to Minnesota Statutes, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

In connection with our audit, we found Independent School District No. 564 complied with the material terms and conditions with the provisions of the *Manual for Activity Fund Accounting* except for items 2016-001(a), 2016-002(a), and 2016-003(a) in the schedule of findings – student activity accounts. 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.

A handwritten signature in blue ink that reads "Brady Martz".

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

October 24, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS
June 30, 2016**

2016-001(a) FINDING

Criteria

Per the UFARS Manual for Activity Fund Accounting (MAFA), revenue from vending contracts must not be deposited into student activity accounts. Also, the District Board of Education must approve all contracts and the payments for the contracted goods or services must be made by the district following the normal district processes.

Condition

Revenues from vending contracts were deposited into student activity accounts. Student activities entered into contracts for goods or services without obtaining board approval and paid for those contracts out of the student activity accounts.

Cause

Oversight by District staff.

Effect

The student activity account is not in compliance with the Minnesota *Manual for Activity Fund Accounting*.

Recommendation

Revenues from vending contracts should be deposited in the district. Staff overseeing student activity should confirm that a contract for goods or services obtains board approval prior to entering into the contract. The district should pay for contracts and the student activity account should reimburse the district.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and all contracts will be paid by the District.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS
June 30, 2016**

2016-002(a) FINDING

Criteria

Per the UFARS Manual for Activity Fund Accounting (MAFA), student activity accounts may not be adult or staff-related and must be used to account for dollars raised by the students for the students.

Condition

Several accounts within student activity do not qualify as student activity accounts based on the MAFA description.

Cause

Oversight by District staff.

Effect

The student activity account is not in compliance with the Minnesota *Manual for Activity Fund Accounting*.

Recommendation

Staff overseeing student activity accounts should review all accounts and remove non-student accounts from student activity.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will remove all non-student accounts from the student activity.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS
June 30, 2016**

2016-003(a) FINDING

Criteria

Per the UFARS Manual for Activity Fund Accounting (MAFA), student activity accounts that have been inactive for a maximum of one fiscal year must be closed unless the advisor submits a plan for why it should not be terminated and the principal approves the plan.

Condition

There are multiple student activity accounts that have been inactive for over one year.

Cause

Oversight by District staff.

Effect

The student activity account is not in compliance with the Minnesota *Manual for Activity Fund Accounting*.

Recommendation

Staff overseeing student activity funds should review student activity accounts for inactivity each year and either obtain approval from the principal or close the accounts in the manner indicated on the student activity purpose form.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will close all inactive accounts.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
CORRECTIVE ACTION PLAN – STUDENT ACTIVITY ACCOUNTS
June 30, 2016**

2016-001(a) FINDING

Contact Person – District Business Manager

Corrective Action Plan – The District will deposit revenue from the vending contracts into the district accounts. The District will approve and pay for contracts for goods or services and be reimbursed by the student activity account.

Completion Date – Immediately

2016-002(a) FINDING

Contact Person – District Business Manager

Corrective Action Plan – The District will remove all non-student related accounts from student activity.

Completion Date – Immediately

2016-003(a) FINDING

Contact Person – District Business Manager

Corrective Action Plan – The District will dispose of accounts that have remained inactive for one year or obtain principal approval for those accounts.

Completion Date – Immediately

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2016

District Name: INDEPENDENT SCHOOL DISTRICT NO. 564

District Number: 564

	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	21,470,580	21,470,580		Total Revenue	6,468	6,468	
Total Expenditures	21,542,616	21,542,616		Total Expenditures	1,473,310	1,473,310	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	234,960	234,960		460 Non Spendable Fund Balance	235,169	235,169	
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development				407 Capital Projects Levy			
405 Deferred Maintenance	47,349	47,349		409 Alternative Facility Program			
406 Health & Safety	25,682	25,682		413 Projects Funded By COP			
407 Capital Projects Levy				<i>Restricted</i>			
408 Cooperative Revenue				464 Restricted Fund Balance	10,783	10,783	
414 Operating Debt				<i>Unassigned:</i>			
416 Levy Reduction				463 Unassigned Fund Balance			
417 Taconite Building Maintenance				Reconciliation of Building Construction	1,725,730	1,725,730	
423 Certain Teacher Programs				07 DEBT SERVICE			
424 Operating Capital	662,771	662,770	1	Total Revenue	2,527,345	2,527,345	
426 \$25 Taconite				Total Expenditures	2,863,256	2,863,256	
427 Disabled Accessibility				<i>Non Spendable</i>			
428 Learning & Development				460 Non Spendable Fund Balance			
434 Area Learning Center				<i>Restricted/Reserved:</i>			
435 Contracted Alt Programs				425 Bond Refundings			
436 State Approved Alt Program				451 QZAB Payments			
438 Gifted & Talented				<i>Restricted</i>			
440 Teacher Development and Eval.				464 Restricted Fund Balance	605,070	605,070	
441 Basic Skills Programs				<i>Unassigned:</i>			
445 Career and Technical Programs				463 Unassigned Fund Balance			
449 Safe Schools Levy				Reconciliation of Debt Service	5,995,671	5,995,671	
450 Prekindergarten				08 TRUST			
451 QZAB Payments				Total Revenue	2,732	2,731	1
452 OPEB Liab Not In Trust				Total Expenditures	3,900	3,900	
453 Unfunded Sev & Retirement Levy				<i>Unassigned:</i>			
<i>Restricted</i>				422 Unassigned Fund Balance	64,931	64,931	
464 Restricted Fund Balance				Reconciliation of Trust	71,563	71,562	1
<i>Committed</i>				20 INTERNAL SERVICE			
418 Committed for Separation	44,407	44,407		Total Revenue			
461 Committed				Total Expenditures			
<i>Assigned</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	930,869	930,869		422 Unassigned Fund Balance			
<i>Unassigned:</i>				Reconciliation of Internal Service			
422 Unassigned Fund Balance	3,587,716	3,587,716		25 OPEB REVOCABLE TRUST FUND			
Reconciliation of General	48,546,950	48,546,949	1	Total Revenue			
02 FOOD SERVICE				Total Expenditures			
Total Revenue	1,189,939	1,189,940	(1)	<i>Unassigned:</i>			
Total Expenditures	1,141,399	1,141,399		422 Unassigned Fund Balance			
<i>Non Spendable</i>				Reconciliation of OPEB Revocable Trust			
460 Non Spendable Fund Balance	46,234	46,234		45 OPEB IRREVOCABLE TRUST FUND			
<i>Restricted/Reserved:</i>				Total Revenue	27,155	27,155	
452 OPEB Liab Not In Trust				Total Expenditures	163,764	163,765	(1)
<i>Restricted</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	154,924	154,925	(1)	422 Unassigned Fund Balance	1,520,449	1,520,449	
<i>Unassigned</i>				Reconciliation of OPEB Irrevocable Trust	1,711,368	1,711,369	(1)
463 Unassigned Fund Balance				47 OPEB DEBT SERVICE FUND			
Reconciliation of Food Service	2,532,496	2,532,498	(2)	Total Revenue	241,084	241,084	
04 COMMUNITY SERVICE				Total Expenditures	238,500	238,500	
Total Revenue	811,651	811,652	(1)	<i>Non Spendable</i>			
Total Expenditures	835,974	835,974		460 Non Spendable Fund Balance			
<i>Non Spendable</i>				<i>Restricted</i>			
460 Non Spendable Fund Balance				425 Bond Refunding			
<i>Restricted/Reserved:</i>				464 Restricted Fund Balance	68,311	68,311	
426 \$25 Taconite				<i>Unassigned</i>			
431 Community Education	130,329	130,329		463 Unassigned Fund Balance			
432 E.C.F.E.	37,901	37,901		Reconciliation of OPEB Debt Service	547,895	547,895	
440 Teacher Development and Eval.				01 GENERAL FUND			
444 School Readiness	24,036	24,036		Total Revenue			
447 Adult Basic Education				Total Expenditures			
452 OPEB Liab Not In Trust				<i>Non Spendable</i>			
<i>Restricted</i>				460 Non Spendable Fund Balance			
464 Restricted Fund Balance	25,146	25,146		<i>Restricted</i>			
<i>Unassigned</i>				425 Bond Refunding			
463 Unassigned Fund Balance				464 Restricted Fund Balance	68,311	68,311	
Reconciliation of Community Service	1,865,037	1,865,038	(1)	<i>Unassigned</i>			
				463 Unassigned Fund Balance			
				Reconciliation of OPEB Debt Service	547,895	547,895	