

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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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, 2017**

Mike Spears	Chairman
Misty Hempel	Vice-Chairman
Shannon Boen	Clerk
Kevin Ballard	Treasurer
Jon Lindgren	Director
Chris Melbye	Director
Wayne Nomeland	Director
Tanya Monson-Ek	District Business Manager
Bradley Bergstrom	Superintendent



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, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As discussed in Note 2 to the financial statements, the District has retroactively restated the previously report Net Position in accordance with these statements.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, 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 18, 2017 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

October 18, 2017

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**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017**

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, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

For the year ending June 30, 2017, the District's unassigned fund balance decreased from \$3,587,716 to \$3,468,433 or a decrease of \$119,283.

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, 2017**

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 and debt service fund, all of which are considered to be major funds. Data from the other six 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, 2017**

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was \$(13,642,004) on June 30, 2017 (see details in Table A-1). This was a decrease of 315.2 percent from the prior year. This significant decrease is due to increased TRA, PERA and OPEB liabilities.

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

	<u>2017</u>	<u>2016</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 44,313,153	\$ 34,050,119	30.1 %
Capital Assets	<u>42,216,292</u>	<u>43,744,999</u>	(3.5)
Total Assets	<u>86,529,445</u>	<u>77,795,118</u>	11.2
Deferred Outflows of Resources	<u>29,556,247</u>	<u>2,832,096</u>	943.6
Long-term Liabilities	111,169,190	66,325,393	67.6
Other Liabilities	<u>3,529,213</u>	<u>3,540,880</u>	(0.3)
Total Liabilities	<u>114,698,403</u>	<u>69,866,273</u>	64.2
Deferred Inflows of Resources	<u>15,029,293</u>	<u>14,046,664</u>	7.0
Net Position			
Net Investment in Capital Assets	12,550,115	12,518,167	0.3
Restricted	1,761,153	1,488,408	18.3
Unrestricted	<u>(27,953,272)</u>	<u>(17,292,298)</u>	61.7
Total Net Position	<u>\$ (13,642,004)</u>	<u>\$ (3,285,723)</u>	315.2 %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017**

Change in Net Position

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

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

	<u>2017</u>	<u>2016</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 1,424,690	\$ 1,409,552	1.1 %
Operating Grants and Contributions	5,690,491	4,743,145	20.0
Capital Grants and Contributions	507,967	348,905	45.6
General Revenues			
Property Taxes	5,792,916	4,618,113	25.4
Unrestricted State Aid	14,495,870	14,280,683	1.5
Other Sources	414,633	867,525	(52.2)
Total Revenues	<u>28,326,567</u>	<u>26,267,923</u>	7.8
Expenses			
Administration	2,019,184	1,497,596	34.8
District Support Services	608,512	540,134	12.7
Elementary & Secondary Regular Instruction	13,754,140	9,641,682	42.7
Vocational Education Instruction	662,697	435,947	52.0
Special Education Instruction	4,370,558	3,217,090	35.9
Community Education and Services	1,003,460	833,314	20.4
Instructional Support Services	1,681,797	1,325,028	26.9
Pupil Support Services	2,983,373	3,711,839	(19.6)
Sites and Buildings	5,894,530	6,286,959	(6.2)
Fixed Costs	445,001	87,547	408.3
Interest on Long-Term Debt	1,967,921	1,768,393	11.3
Depreciation - Unallocated	460,973	463,523	(0.6)
Total Expenses	<u>35,852,146</u>	<u>29,809,052</u>	20.3
Change in Net Position	(7,525,579)	(3,541,129)	(112.5)
Net Position - Beginning	(3,285,723)	255,406	(1,386.5)
GASB 75 Adjustment - See Note 2	<u>(2,830,702)</u>		
Net Position - Beginning, Restated	<u>(6,116,425)</u>	<u>255,406</u>	(2,494.8)
Net Position - Ending	\$ <u>(13,642,004)</u>	\$ <u>(3,285,723)</u>	315.2 %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017**

The District's total revenues were \$28,326,567 for the year ended June 30, 2017. 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 \$35,852,146. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position \$7,525,579 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)
	2017	2016		
Governmental Funds				
General	\$ 5,875,126	\$ 5,533,754	\$ 341,372	6.2 %
Debt Service Fund	10,325,113	605,070	9,720,043	1,606.4

The Debt Service Fund Balance increased significantly which is due to refinancing long-term debt and the funds to complete the refunding are currently deposited in an escrow account until the bond call date.

General Fund

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

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

**Table A-4
General Fund Revenue**

	2017	2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 2,460,595	\$ 1,811,395	\$ 649,200	35.8 %
Interest Earnings	26,008	15,568	10,440	67.1
Other	813,504	1,242,929	(429,425)	(34.5)
State Sources	18,228,453	17,533,740	694,713	4.0
Federal Sources	852,396	858,300	(5,904)	(0.7)
Other	13,627	8,648	4,979	57.6
Total General Fund Revenue	\$ <u>22,394,583</u>	\$ <u>21,470,580</u>	\$ <u>924,003</u>	4.3 %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017**

Total general fund revenue increased by \$924,003 or 4.3 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. The increases in revenue over the prior year are primarily due to increases in the area of property taxes and state sources.

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

**Table A-5
General Fund Expenditures**

	<u>2017</u>	<u>2016</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 14,034,190	\$ 13,587,955	\$ 446,235	3.3 %
Employee Benefits	3,586,710	3,475,970	110,740	3.2
Purchased Services	1,783,302	2,055,248	(271,946)	(13.2)
Supplies and Materials	1,104,398	1,131,848	(27,450)	(2.4)
Capital Expenditures	919,800	803,582	116,218	14.5
Debt Service	381,672	321,519	60,153	18.7
Other Expenditures	239,214	166,494	72,720	43.7
Total General Fund Expenditures	<u>\$ 22,049,286</u>	<u>\$ 21,542,616</u>	<u>\$ 506,670</u>	2.4 %

General Fund Budgetary Highlights

During the year the District revised its budget twice.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$1,204,149. The actual results for the year show a surplus of \$341,372.

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

Capital Assets and Debt Administration

Capital Assets

Note 6 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2017. Additions totaling \$555,215 consisted of building improvements, site improvements, and equipment.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017**

Long-Term Debt

At year-end, the District had \$113,412,258 of long-term debt. This consisted of bonded indebtedness net of premiums and discounts of \$60,951,075, energy service payable of \$736,596, capital lease payable of \$436,944, accrued interest payable of \$953,286, severance payable of \$47,580, net pension liability of \$48,362,173 and net other postemployment benefit liability of \$1,924,604. Note 7-10 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 80% of general fund expenditures.
- The District receives 81% of its' revenue from state sources. The District is significantly impacted by the results of the financial health of the State of Minnesota. School District's have been fortunate the past several years to receive additional increases in the general education funding formula from the State. These increases, however, have not increased at the same rate as inflation.

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, 2017

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
ASSETS		
Cash and Investments	\$ 8,264,247	\$ 37,548
Investment with Fiscal Agent	10,899,961	
Restricted Cash		346,447
Property Taxes Receivable, Net of Allowance	2,350,327	
Accounts Receivable	156,927	
Due From MN School Districts	15,647	
Due From Department of Education	2,243,488	
Due From Federal Govt. - DOE	95,769	
Prepaid Expenses	236,201	
Inventory	40,192	
Note Receivable - USBCDC	20,010,394	
Capital Assets		
Land, Construction in Process	1,030,037	
Other Capital Assets, Net of Depreciation	41,186,255	23,079,226
TOTAL ASSETS	86,529,445	23,463,221
DEFERRED OUTFLOWS OF RESOURCES		
Accrued Revenue		8,523,752
Cost Sharing Defined Benefit Pension Plan	29,551,009	
Other Postemployment Benefit Plan	5,238	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	29,556,247	8,523,752
LIABILITIES		
Accounts Payable	47,058	154
Accrued Expenses		10,000
Contracts Payable	153,647	
Due To Other MN School Districts	2,632	
Due To Other Governmental Units	108	
Payroll Deductions	199,039	
Interest Payable	777,408	22,500
Vacation Payable	106,253	
Long-Term Liabilities Due Within One Year	2,243,068	
Long-Term Liabilities		
Bonds, Net Unamortized Premiums (Discounts)	60,951,075	
Capital Lease Payable	436,944	
Energy Service Payable	736,596	
Notes Payable - MMCDC, Net		18,468,722
Notes Payable - USBCDE, Net		8,836,575
Interest Payable	953,286	
Severance Payable	47,580	
Net Pension Liability	48,362,173	
Net Other Postemployment Benefit Liability	1,924,604	
Less Amounts Due Within One Year	(2,243,068)	
Total Long-Term Liabilities	111,169,190	27,305,297
TOTAL LIABILITIES	114,698,403	27,337,951

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, 2017

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Rent Payable	8,523,752	
Property Taxes Levied - Subs. Years	5,693,222	
Cost Sharing Defined Benefit Pension Plan	812,319	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>15,029,293</u>	
NET POSITION		
Net Investment in Capital Assets	12,550,115	
Restricted for:		
Health & Safety	37,808	
Long Term Facility Maintenance	79,715	
Operating Capital	878,233	
Medical Assistance	38,999	
Food Service	325,330	
Community Education	78,424	
ECFE	38,720	
School Readiness	24,771	
Community Service	20,304	
Capital Project	156,779	
OPEB Debt Service	24,802	
District Programs	25,160	
Permanent Fund - Non Expendable	7,108	
Permanent Fund - Expendable	25,000	
Unrestricted	(27,953,272)	
Member's Equity		<u>4,649,022</u>
TOTAL NET POSITION	<u>\$ (13,642,004)</u>	<u>\$ 4,649,022</u>

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

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INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

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	\$ 2,019,184	\$	\$	2,648	\$ (2,016,536)	\$
District Support Services	608,512			775	(607,737)	
Elementary & Secondary						
Regular Instruction	13,754,140	247,199	2,251,392	80,505	(11,175,044)	
Vocational Education Instruction	662,697	104	28,507		(634,086)	
Special Education Instruction	4,370,558	45,959	2,092,334		(2,232,265)	
Community Education and Services	1,003,460	434,967	214,536		(353,957)	
Instructional Support Services	1,681,797	52,545	322,152	78,450	(1,228,650)	
Pupil Support Services	2,983,373	606,274	781,012	74,916	(1,521,171)	
Sites and Buildings	5,894,530	37,642	558	270,673	(5,585,657)	
Fixed Costs	445,001				(445,001)	
Interest on Long-Term Debt	1,967,921				(1,967,921)	
Depreciation - Unallocated	460,973				(460,973)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 35,852,146	\$ 1,424,690	\$ 5,690,491	\$ 507,967	(28,228,998)	
COMPONENT UNIT:						
TRF EDA	\$ 1,178,587	\$ 2,084,545	\$	\$		905,958
GENERAL REVENUES						
Taxes						
Property Taxes, Levied for General Purposes					2,458,955	
Property Taxes, Levied for Community Education and Services					156,869	
Property Taxes, Levied for Debt Services					2,960,367	
Property Taxes, Levied for OPEB Debt Services					216,725	
Unrestricted State Aid					14,495,870	
Unrestricted Investment Earnings					42,393	
Gain on Sale of Capital Asset					1,075	
Other General Revenue					371,165	
TOTAL GENERAL REVENUES					20,703,419	
Change in Net Position					(7,525,579)	905,958
Equity Distributions						(23,000)
Net Position - Beginning					(3,285,723)	4,044,048
GASB 75 Adjustment - See Note 2					(2,830,702)	
Adjustment - Component Unit - See Note 2						(277,984)
Net Position - Beginning, Restated					(6,116,425)	3,766,064
Net Position - Ending					\$ (13,642,004)	\$ 4,649,022

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, 2017

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 4,952,069	\$ 2,554,785	\$ 757,393	\$ 8,264,247
Investment with Fiscal Agent		9,649,181	1,250,780	10,899,961
Current Property Taxes Receivable	925,092	1,267,206	160,120	2,352,418
Delinquent Property Taxes Receivable	15,711	70,330	13,868	99,909
Accounts Receivable	117,217		39,710	156,927
Due From MN School Districts	15,647			15,647
Due From Department of Education	2,186,657	10,496	46,335	2,243,488
Due From Federal Govt. - DOE	95,769			95,769
Prepaid Expenses	79,422		156,779	236,201
Inventory			40,192	40,192
TOTAL ASSETS	\$ 8,387,584	\$ 13,551,998	\$ 2,465,177	\$ 24,404,759
LIABILITIES				
Accounts Payable	\$ 42,357		\$ 4,701	\$ 47,058
Contracts Payable	153,647			153,647
Due To Other MN School Districts	2,632			2,632
Due To Other Governmental Units	108			108
Payroll Deductions	160,062		38,977	199,039
TOTAL LIABILITIES	358,806		43,678	402,484
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	15,711	70,330	13,868	99,909
Property Taxes Levied - Subs. Years	2,137,941	3,156,555	398,726	5,693,222
TOTAL DEFERRED INFLOWS OF RESOURCES	2,153,652	3,226,885	412,594	5,793,131
FUND BALANCES				
Fund Balance:				
Nonspendable: Prepaid	79,422		156,779	236,201
Nonspendable: Inventory			40,192	40,192
Nonspendable: Scholarships			25,000	25,000
Restricted for Health & Safety	37,808			37,808
Restricted for Operating Capital	878,233			878,233
Restricted for Long Term Facility Maintenance	79,715			79,715
Restricted for Food Service			285,138	285,138
Restricted for School Readiness			24,771	24,771
Restricted for Community Education			78,424	78,424
Restricted for ECFE			38,720	38,720
Restricted for Community Service			20,304	20,304
Restricted for Bond Refunding		9,649,181	1,250,780	10,899,961
Restricted for OPEB Debt Service			56,529	56,529
Restricted for Debt Service		675,932		675,932
Restricted for Scholarships			7,108	7,108
Restricted for District Programs			25,160	25,160
Restricted for Medical Assistance	38,999			38,999
Committed for Severance	47,580			47,580
Assigned for Technology	1,159,936			1,159,936
Assigned for Building Trades	85,000			85,000
Unassigned	3,468,433			3,468,433
TOTAL FUND BALANCES	5,875,126	10,325,113	2,008,905	18,209,144
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,387,584	\$ 13,551,998	\$ 2,465,177	\$ 24,404,759

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, 2017

Total fund balances - governmental funds	\$ 18,209,144
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	65,827,284
Less accumulated depreciation	(23,610,992)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	29,556,247
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	(61,129,458)
Capital lease payable	(436,944)
Energy service payable	(736,596)
Unamortized premiums (discounts)	178,383
Severance payable	(47,580)
Net Pension Liability	(48,362,173)
Net other postemployment benefit liability	(1,924,604)
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.	(812,319)
Vacation payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(106,253)
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.	99,909
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.	(1,730,694)
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>(8,523,752)</u>
Net position - governmental activities	<u>\$ (13,642,004)</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, 2017

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	\$ 2,460,595	\$ 2,953,231	\$ 373,006	\$ 5,786,832
Other Local & County Revenues	839,512	14,003	481,715	1,335,230
Revenue From State Sources	18,228,453	104,958	276,962	18,610,373
Revenue From Federal Sources	852,396		615,553	1,467,949
Sale/Other Conversion of Asset	13,627		558,785	572,412
TOTAL REVENUES	<u>22,394,583</u>	<u>3,072,192</u>	<u>2,306,021</u>	<u>27,772,796</u>
EXPENDITURES				
Current				
Administration	1,537,693			1,537,693
District Support Services	580,453			580,453
Elementary & Secondary				
Regular Instruction	9,598,113		13,344	9,611,457
Vocational Education Instruction	482,639			482,639
Special Education Instruction	3,374,400			3,374,400
Community Education and Services			873,151	873,151
Instructional Support Services	1,192,098			1,192,098
Pupil Support Services	1,441,268		1,139,049	2,580,317
Sites and Buildings	2,460,180			2,460,180
Fixed Costs	80,970			80,970
Debt Service				
Principal	335,305	1,645,000	155,000	2,135,305
Interest	46,367	1,355,681	82,500	1,484,548
Other Fees		350,507	47,563	398,070
Capital Outlay	919,800		89,273	1,009,073
TOTAL EXPENDITURES	<u>22,049,286</u>	<u>3,351,188</u>	<u>2,399,880</u>	<u>27,800,354</u>
Revenues Over (Under) Expenditures	345,297	(278,996)	(93,859)	(27,558)
OTHER FINANCING SOURCES (USES)				
Debt Issued		9,999,039	1,300,000	11,299,039
Sale of Fixed Assets	1,075			1,075
Transfers In			5,000	5,000
Transfers Out	(5,000)			(5,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,925)</u>	<u>9,999,039</u>	<u>1,305,000</u>	<u>11,300,114</u>
Net Change in Fund Balances	341,372	9,720,043	1,211,141	11,272,556
Fund Balances - Beginning	5,533,754	605,070	797,764	6,936,588
Fund Balances - Ending	<u>\$ 5,875,126</u>	<u>\$ 10,325,113</u>	<u>\$ 2,008,905</u>	<u>\$ 18,209,144</u>

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, 2017

Total net change in fund balances - governmental funds	\$ 11,272,556
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	555,215
Depreciation expense	(2,083,922)
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	2,135,304
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.	(11,265,000)
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.	(483,372)
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.	(1,784,379)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	6,084
Change in net pension liability	(33,605,142)
Change in deferred outflows and inflows of resources related to net pension liability	27,807,443
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	(3,754)
Other postemployment benefits	(73,439)
Severance payable	(3,173)
Change in net position - governmental activities	<u>\$ (7,525,579)</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 FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2017**

	<u>OPEB Trust Fund</u>
ASSETS	
Investments	\$ <u>1,364,563</u>
TOTAL ASSETS	<u>1,364,563</u>
NET POSITION	
Held in Trust for OPEB	\$ <u><u>1,364,563</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, 2017**

	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	\$ <u>12,698</u>
TOTAL ADDITIONS	<u>12,698</u>
DEDUCTIONS	
Benefits	<u>168,584</u>
TOTAL DEDUCTIONS	<u>168,584</u>
Change in Net Position	(155,886)
Net Position Held in Trust for OPEB - Beginning	<u>1,520,449</u>
Net Position Held in Trust for OPEB - Ending	<u>\$ <u>1,364,563</u></u>

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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 STATEMENTS
June 30, 2017**

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 STATEMENTS
June 30, 2017**

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

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

Description of Funds

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

Major Governmental Funds

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

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

Nonmajor Governmental Funds

Special Revenue Funds:

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

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

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

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

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 STATEMENTS
June 30, 2017

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 2016 which are not payable until 2017, 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 STATEMENTS
June 30, 2017

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.

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 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.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC STATEMENTS
June 30, 2017

Other Postemployment Benefits (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Retiree Benefits Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of the purchase of one year or less, which are reported at cost. Post employment healthcare expenditures have been funded through contributions to an irrevocable trust and on a pay as you go basis in the future.

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

PERA has a special funding situation created by direct aid contributions of \$6,000,000 made by the State of Minnesota to the fund in 2017.

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 4.

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

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assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for 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

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and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2 ACCOUNTING CHANGES

A. Change in Accounting Principles and Restatement of Net Position

The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. For plans with an irrevocable trust, this statement requires the District record their net OPEB liability, which is their total OPEB liability reduced by their plan assets, on the Statement of Net Assets. A 20-year Municipal Bond rate is used to discount the unfunded benefit payments and the long-term rate of return on plan investments is used to discount benefits projected to be paid by plan assets. Liabilities are calculated using the Entry Age actuarial cost method.

As a result, beginning net position has been restated as of July 1, 2016 as follows:

OPEB Balance as of June 30, 2016 (GASB 75)	\$	(1,851,165)
Net OPEB Asset (GASB 45)		<u>979,537</u>
Decrease in Net Position as of July 1, 2016	\$	<u><u>(2,830,702)</u></u>

B. Change in Accounting Principles – Component Unit

During 2017, the Company retroactively adopted new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than an asset. Amortization of the debt issuance cost is reported as interest expense rather than as amortization expense. The effect of the change for 2017 was to decrease deferred charges, net and notes payable by \$494,703. The financial statements of 2016 have to be retroactively restated for this change, which resulted in a decrease to deferred charges, net and notes payable of \$608,007. The change does not impact net income or members' equity.

The change in accounting principle to move the effective interest method of debt issuance costs resulted in a prior period adjustment that increased accumulated amortization by \$277,984 for the year ended June 30, 2016.

NOTE 3 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, 2017, was \$55,443.

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

	Governmental Activities	Fiduciary Fund	Total
Cash	\$ 501,199	\$	\$ 501,199
Investments	<u>18,663,009</u>	<u>1,364,563</u>	<u>20,027,572</u>
Total	<u><u>\$ 19,164,208</u></u>	<u><u>\$ 1,364,563</u></u>	<u><u>\$ 20,528,771</u></u>

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As of June 30, 2017, the District had the following investments:

Investments	Maturities	Fair Value (Level 1)
US Treasury State & Local	7/31/2017	\$ 51,054
US Treasury State & Local	1/31/2018	45,887
US Treasury State & Local	7/20/2018	43,911
US Treasury State & Local	7/31/2018	4,003
US Treasury State & Local	1/28/2019	42,994
US Treasury State & Local	1/28/2019	1,231,828
US Treasury State & Local	6/21/2019	44,747
US Treasury State & Local	1/21/2020	44,117
US Treasury State & Local	7/31/2020	44,545
US Treasury State & Local	12/28/2020	46,262
US Treasury State & Local	7/14/2021	43,847
US Treasury State & Local	1/31/2022	9,173,784
Total Investments (By Fair Value)		<u>10,816,979</u>
Minnesota School District Liquid Asset Fund	N/A	76,997
Mn Trust	N/A	9,050,615
US Bank	N/A	82,981
Total Investments		<u>\$ 20,027,572</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.
- (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.

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- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAAM by Standard & Poor’s, while the MnTrust is rated Aaa by Moody’s Investors Services.

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

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District’s board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2017, 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 4 RESTRICTED CASH – COMPONENT UNIT

As of June 30, 2017, the Thief River Falls Economic Development Association’s restricted cash consisted of the following:

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.

Audit and Tax Fee Reserve	\$ 24,606
Operating Reserves	9,000
MMCDC Reserves	269,580
USBCDC Reserves	43,261
	<u>\$ 346,447</u>

NOTE 5 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

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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 6 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, 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	249,193	10,812	249,193
Total Capital Assets, Not Being Depreciated	<u>791,656</u>	<u>249,193</u>	<u>10,812</u>	<u>1,030,037</u>
Capital Assets, Being Depreciated:				
Land Improvements	1,263,512			1,263,512
Buildings	58,621,347	247,253		58,868,600
Equipment	4,764,022	69,581	168,468	4,665,135
Total Capital Assets, Being Depreciated	<u>64,648,881</u>	<u>316,834</u>	<u>168,468</u>	<u>64,797,247</u>
Less Accumulated Depreciation For:				
Land Improvements	767,563	31,965		799,528
Buildings	17,716,966	1,821,196		19,538,162
Equipment	3,211,009	230,761	168,468	3,273,302
Total Accumulated Depreciation	<u>21,695,538</u>	<u>2,083,922</u>	<u>168,468</u>	<u>23,610,992</u>
Total Capital Assets, Being Depreciated, Net	<u>42,953,343</u>	<u>(1,767,088)</u>	<u></u>	<u>41,186,255</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,744,999</u>	<u>\$ (1,517,895)</u>	<u>\$ 10,812</u>	<u>\$ 42,216,292</u>

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

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Elementary & Secondary Regular Instruction	\$ 13,187
Vocational Education Instruction	3,484
Pupil Support Services	165,946
Sites and Buildings	<u>1,440,332</u>
	1,622,949
Unallocated	<u>460,973</u>
Total Depreciation Expense	<u>\$ 2,083,922</u>

Changes in capital assets for the discretely presented component unit for the period ending June 30, 2017 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>160,343</u>	<u> </u>	<u>-</u>	<u>160,343</u>
Total Capital Assets, Being Depreciated	<u>25,437,467</u>	<u> </u>	<u>-</u>	<u>25,437,467</u>
Less Accumulated Depreciation:	<u>1,699,589</u>	<u>658,652</u>	<u>-</u>	<u>2,358,241</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 23,737,878</u>	<u>\$ (658,652)</u>	<u>\$</u>	<u>\$ 23,079,226</u>

NOTE 7 DEFINED BENEFIT PENSION PLANS- STATEWIDE

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

Disclosures relating to these plans follow:

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description – The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))
All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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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 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 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 accrual rate is 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.

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2017. The District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the GEF for the year ended June 30, 2017, were \$341,032. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2017, the District reported a liability of \$5,618,697 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6,000,000 to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$73,378. 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0692% which was an increase of 0.0005% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$695,980 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional \$21,879 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Employees Fund.

At June 30, 2017, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 16,941	\$ 455,564
Changes in actuarial assumptions	1,213,915	
Changes in proportion	20,754	42,277
Difference between projected and actual investment earnings	617,200	
Contributions paid to PERA subsequent to the measurement date	341,032	
Total	<u>\$ 2,209,842</u>	<u>\$ 497,841</u>

\$341,032 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2018	\$ 374,916
2019	244,208
2020	548,889
2021	202,956

Actuarial Assumptions – The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	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 in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

District Proportionate Share of NPL		
1% Decrease	Current (7.5%)	1% Increase
(6.5%)	(7.5%)	(8.5%)
\$ <u>7,980,215</u>	\$ <u>5,618,697</u>	\$ <u>3,673,449</u>

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

B. TEACHERS RETIREMENT ASSOCIATION

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

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 cities of Duluth and 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)

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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 I</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.

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.

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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, 2015, June 30, 2016, and June 30, 2017, 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	\$ 354,961,140
Deduct employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total non-employer contributions	<u>35,587,410</u>
Employer contributions reported in schedule of employer and non-employer pension allocations	<u>\$ 390,131,928</u>

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

Actuarial Assumptions – The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2016
Experience Study	June 5, 2015
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	4.66%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.75%
Wage Growth Rate	3.5%
Projected Salary Increase	3.5 – 9.5%
Cost of Living Adjustment	2.0%

Mortality Assumption

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

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Post-retirement RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.

Post-disability RP-2014 disabled retiree mortality table, without adjustment.

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

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

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

Discount Rate - The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 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 depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

Net Pension Liability - On June 30, 2017, the District reported a liability of \$42,743,476 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 0.1792% at the end of the measurement period and 0.1810% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 42,473,476
State's proportionate share of the net pension liability associated with the district	\$ 4,290,612

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 remain level at 2.0 percent annually. While in the previous measurement the COLA increased to 2.5 percent in 2034.

For the year ended June 30, 2017, the District recognized pension expense of \$6,172,033. It also recognized \$599,118 as an increase to pension expense for the support provided by direct aid.

On June 30, 2017, 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	\$ 457,019	\$ 1,192
Net difference between projected and actual earnings on plan inv.	1,736,428	
Changes in actuarial assumptions	24,380,708	
Changes in proportion	49,757	313,286
Contributions paid to TRA subsequent to the measurement date	717,255	
Total	<u>\$ 27,341,167</u>	<u>\$ 314,478</u>

\$717,255 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ended	Pension Expense
2018	\$ 5,159,061
2019	5,159,061
2020	5,831,044
2021	5,437,715
2022	4,722,553

Pension Liability Sensitivity - The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 4.66 percent as well as the liability measured using one percent lower and one percent higher.

District Proportionate Share of NPL		
1% Decrease (3.66%)	Current (4.66%)	1% Increase (5.66%)
\$ 55,064,280	\$ 42,743,476	\$ 32,708,582

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

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

NOTE 8 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, 2017, 29 retired employees and spouses were eligible to participate.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

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

The District may contribute the actuarially determined contribution (ADC), an amount actuarially determined in accordance with parameters of GASB Statement 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The pay as you go cost for OPEB benefits is \$374,435. The annual employer contributions were \$184,116 and \$190,319 was the implicit subsidy. These costs are recognized as an expense when claims or premiums are paid. The General Fund paid for \$205,581 16-17 cost and transferred \$168,854 from the OPEB trust fund.

Employees covered by benefit term – At June 30, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	29
Active plan members	306
	<u>335</u>

Net OPEB Liability – The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.0 percent, average, including inflation
Investment rate of return	1.3 percent, net of OPEB plan investment expense, including inflation

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Healthcare cost trend rates 6.75 percent in 2016 to 5 percent over 7 years

Mortality rates were based on the RP-2014 White Collar Mortality Table with MP-2015 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2017.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	100%	1.3

Discount rate – The discount rate used to measure the total OPEB liability was 2.8 percent. The projection of cash flows was used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 6/30/2016	\$ 3,371,614	\$ 1,520,449	\$ 1,851,165
Changes for the year:			
Service Cost	197,265		197,265
Interest Cost	94,723		94,723
Employer Contributions		205,581	(205,581)
Projected Investment Return		19,766	(19,766)
Differences between Expected and Actual Experience		(6,548)	6,548
Benefit Payments	(374,435)	(374,435)	-
Administrative Expenses		(250)	250
Net changes	(82,447)	(155,886)	73,439
Balances at 6/30/2017	\$ 3,289,167	\$ 1,364,563	\$ 1,924,604

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate

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that is 1-percentage-point lower (1.8 percent) or 1-percentage-point-higher (3.8 percent) than the current discount rate:

District Net OPEB Liability		
1% Decrease (1.8%)	Current (2.8%)	1% Increase (3.8%)
\$ 2,123,859	\$ 1,924,604	\$ 1,730,185

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.75 percent decreasing to 4 percent) or 1-percentage-point-higher (7.75 percent decreasing to 6 percent) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
1% Decrease (5.75% decreasing to 4.0%)	Current (6.75% decreasing to 5.0%)	1% Increase (7.75% decreasing to 6.0%)
\$ 1,610,650	\$ 1,924,604	\$ 2,293,072

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2017, the District recognized OPEB expense of \$273,782. At June 30, 2017, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 5,238	\$
Total	\$ 5,238	\$

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2018	\$1,310
2019	1,310
2020	1,310
2021	1,308

NOTE 9 CAPITAL LEASE PAYABLE

The District has entered into lease agreements as lessee for financing eight buses valued at \$767,939. The estimated life for a bus is 8 years. This year, \$95,991 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, 2017, are as follows:

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Year Ending June 30	Amount
2018	\$ 160,502
2019	142,905
2020	97,865
2021	<u>60,153</u>
Total Minimum Lease Payments	461,425
Less: Amount Representing Interest	<u>(24,481)</u>
Present Value of Minimum Lease Payments	<u>\$ 436,944</u>

NOTE 10 LONG-TERM LIABILITIES

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

Summary of Long-Term Debt

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	1,715,000		155,000	1,560,000	160,000
GO Building Bond	43,860,000		1,645,000	42,215,000	1,805,000
GO Refunding Bonds	-	11,265,000		11,265,000	
Unamortized Discount	(349,486)		(28,545)	(320,941)	(28,545)
Unamortized Premium	122,806	34,039	14,287	142,558	14,287
Total Bonds	<u>51,437,778</u>	<u>11,299,039</u>	<u>1,785,742</u>	<u>60,951,075</u>	<u>1,950,742</u>
Energy Service Payable	873,990		137,394	736,596	143,249
Capital Lease Payable	634,854		197,910	436,944	149,077
Accrued Interest Payable	696,377	256,909		953,286	
Severance Payable	44,407	3,173		47,580	
Total Long-Term Liabilities	<u>\$ 53,687,406</u>	<u>\$ 11,559,121</u>	<u>\$ 2,121,046</u>	<u>\$ 63,125,481</u>	<u>\$ 2,243,068</u>

The District's interest expense for the year ended June 30, 2017, was \$1,967,921.

Accrued interest payable is generally liquidated by the debt service fund and severance payable is 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	\$
Unamortized bond issuance costs		(494,703)		(494,703)	
Total Component Unit	<u>\$ 27,800,000</u>	<u>\$ (494,703)</u>	<u>\$</u>	<u>\$ 27,305,297</u>	<u>\$</u>

The TRF EDA's interest expense for the year ended June 30, 2017 was \$278,000. The notes are secured by the project.

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A. General Obligation Bonds

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2017
Capital Appreciation Bond	2013	3.5-4.1%	2026/31	\$ 6,089,458	\$	\$ 6,089,458
Taxable OPEB Bond	2009	4.25-5.2%	2018/20	2,410,000	155,000	1,560,000
Building Bond Series A	2012	3.3-5.4%	2027/30	18,615,000		18,615,000
Building Bond Series B	2012	1.75-3.0%	2018/25	21,500,000	1,545,000	18,085,000
Building Bond Series C	2012	3.0%	2018/26	7,775,000	100,000	5,515,000
GO Crossover Refunding	2016	2.0-4.0%	2023/33	9,965,000		9,965,000
GO OPEB Refunding	2016	1.35-5.25%	2020/25	1,300,000		1,300,000
						<u>\$ 61,129,458</u>

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2018	\$ 1,965,000	\$ 1,746,061
2019	2,150,000	1,620,791
2020	3,615,000	1,571,431
2021	2,600,000	1,457,302
2022	12,115,000	1,393,745
2023-2027	17,515,559	4,756,274
2028-2032	18,223,899	5,419,896
2033	2,945,000	73,625
	<u>\$ 61,129,458</u>	<u>\$ 18,039,125</u>

B. Energy Service Payable

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2017
Energy Service Loan	2006	4.20%	2018/22	\$ 2,036,359	\$ 137,394	\$ 736,596

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2018	\$ 143,249	\$ 28,081
2019	149,353	21,977
2020	155,717	15,613
2021	162,352	8,978
2022	125,925	2,572
	<u>\$ 736,596</u>	<u>\$ 77,221</u>

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C. Notes Payable

Component Unit: Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2017
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>

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

Year Ending June 30	Principal
2018	\$
2019	
2020	400,000
2021	20,430,270
2022	424,090
Thereafter	<u>6,545,640</u>
	<u>\$ 27,800,000</u>

D. Crossover Refunding

During 2017, the District issued \$11,265,000 in general obligation refunding bonds with interest rates ranging between 1.3 to 2.5%. The District issued the bonds to refund the following outstanding general obligations:

General Obligation	Refunding Date	Interest Rate	Amount
GO School Building Bonds, Series 2012A	2/1/2022	4%	\$ 9,270,000
GO Taxable OPEB Bonds, Series 2009A	2/1/2019	4.7 - 5.3%	1,230,000

The District will realize a savings of \$801,975, with a present value of \$635,992.

NOTE 11 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.

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NOTE 12 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, 2017, totaled \$124,580.

NOTE 13 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, 2017, the estimated liability under these plans was \$47,580.

NOTE 14 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%

NOTE 15 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, 2017.

NOTE 16 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, 2017:

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.

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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	
2018	\$ 306,171
2019	312,294
2020	846,396
2021	2,431,536
2022	2,468,010
2023-2027	13,100,486
2028-2032	14,464,001
2033-2037	15,969,425
2038	834,494
	<u>\$ 50,732,813</u>

NOTE 17 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 18 COMMITTED CONTRACTS

Primary Government

As of June 30, 2017, the District had construction commitments in the General Fund of \$211,113.

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NOTE 19 NEW PRONOUNCEMENTS

GASB Statement No. 82, *Pension Issues – an 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.

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

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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, 2017

	Budgeted Amounts		Actual	Over (Under)
	Original	Final		Final Budget
REVENUES				
Local Property Tax Levies	\$ 1,882,198	\$ 2,103,096	\$ 2,460,595	\$ 357,499
Other Local & County Revenues	656,524	656,524	839,512	182,988
Revenue From State Sources	17,495,814	17,737,821	18,228,453	490,632
Revenue From Federal Sources	820,825	858,867	852,396	(6,471)
Sale/Other Conversion of Asset	6,200	6,200	13,627	7,427
TOTAL REVENUES	<u>20,861,561</u>	<u>21,362,508</u>	<u>22,394,583</u>	<u>1,032,075</u>
EXPENDITURES				
Current				
Administration	1,526,590	1,572,323	1,537,693	(34,630)
District Support Services	570,620	589,497	580,453	(9,044)
Elementary & Secondary				
Regular Instruction	9,800,389	9,756,314	9,598,113	(158,201)
Vocational Education Instruction	471,112	482,067	482,639	572
Special Education Instruction	3,273,274	3,381,650	3,374,400	(7,250)
Instructional Support Services	1,060,531	1,082,504	1,192,098	109,594
Pupil Support Services	1,317,041	1,248,200	1,441,268	193,068
Sites and Buildings	2,604,657	2,650,396	2,460,180	(190,216)
Fixed Costs	172,710	172,710	80,970	(91,740)
Debt Service				
Principal	335,305	335,305	335,305	
Interest	46,367	46,367	46,367	
Capital Outlay	668,764	1,244,324	919,800	(324,524)
TOTAL EXPENDITURES	<u>21,847,360</u>	<u>22,561,657</u>	<u>22,049,286</u>	<u>(512,371)</u>
Revenues Over (Under) Expenditures	(985,799)	(1,199,149)	345,297	1,544,446
OTHER FINANCING SOURCES (USES)				
Sale of Fixed Assets			1,075	1,075
Transfer Out	(5,000)	(5,000)	(5,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,000)</u>	<u>(5,000)</u>	<u>(3,925)</u>	<u>1,075</u>
Net Change in Fund Balances	(990,799)	(1,204,149)	341,372	1,545,521
Fund Balances - Beginning	5,533,754	5,533,754	5,533,754	
Fund Balances - Ending	<u>\$ 4,542,955</u>	<u>\$ 4,329,605</u>	<u>\$ 5,875,126</u>	<u>\$ 1,545,521</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 CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS**

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 197,265
Interest	94,723
Benefit payments	<u>(374,435)</u>
Net change in total OPEB liability	(82,447)
Total OPEB liability - beginning	<u>3,371,614</u>
Total OPEB liability ending (a)	<u><u>\$ 3,289,167</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 205,581
Net investment income	13,218
Benefit payments	(374,435)
Administrative expenses	<u>(250)</u>
Net change in plan fiduciary net position	(155,886)
Plan fiduciary net position - beginning	<u>1,520,449</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,364,563</u></u>
District's net OPEB liability - ending (a) - (b)	<u><u>\$ 1,924,604</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	41.49%
Covered - employee payroll	\$ 13,281,098
District's net OPEB liability as a percentage of covered - employee payroll	14.49%

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

**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
	2017	341,032	341,032		4,539,716	7.50
TRA						
	2015	\$ 686,991	\$ 686,991	\$	\$ 9,159,858	7.50 %
	2016	699,319	699,319		9,324,269	7.50
	2017	717,255	717,255		9,563,356	7.50

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.
The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years are not available.

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

**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
2016	0.0692	5,618,697	73,378	5,692,075	4,301,849	132.32	68.90
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
2016	0.1792	42,743,476	4,290,612	47,034,088	9,324,269	458.41	44.80

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year. The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017**

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 in Actuarial Assumptions:

- The Cost of Living Adjustment was not assumed to increase for funding or GASB calculations (it remained at 2% for all future years).
- The price inflation assumption was lowered from 3.00% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.50%.
- Minor changes at some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale.
- The post-retirement mortality assumption was changed to the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
- The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional forms of payment at retirement were made.

PERA

Changes in Actuarial Assumptions:

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017**

NOTE 3 OTHER POST EMPLOYMENT BENEFITS

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Amortization period	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes. Closed five-year period for differences between expected and actual asset returns.
Asset valuation method	Trustee value as of the measurement date
Inflation	2.5 percent
Healthcare cost trend rates	6.75 percent decreasing to 5.00 percent over 7 years
Salary increases	3.0 percent
Investment rate of return	1.3 percent, net of OPEB plan investment expense
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	In the 2017 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Special Revenue Funds			Capital Project	Debt Service		Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund		OPEB Debt Service	Permanent Fund	
ASSETS							
Cash and Investments	\$ 264,967	\$ 238,836	\$ 25,160	\$	\$ 196,322	\$ 32,108	\$ 757,393
Investment with Fiscal Agent					1,250,780		1,250,780
Current Property Taxes Receivable		65,794			94,326		160,120
Delinquent Property Taxes Receivable		6,408			7,460		13,868
Accounts Receivable	3,433	36,277					39,710
Due From Department of Education	24,716	20,850			769		46,335
Prepaid Expenses				156,779			156,779
Inventory	40,192						40,192
TOTAL ASSETS	\$ 333,308	\$ 368,165	\$ 25,160	\$ 156,779	\$ 1,549,657	\$ 32,108	\$ 2,465,177
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
LIABILITIES							
Accounts Payable	\$ 976	\$ 3,725	\$	\$	\$	\$	\$ 4,701
Payroll Deductions	7,002	31,975					38,977
TOTAL LIABILITIES	7,978	35,700					43,678
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue - Delinquent Taxes		6,408			7,460		13,868
Property Taxes Levied - Subs. Years		163,838			234,888		398,726
TOTAL DEFERRED INFLOWS OF RESOURCES		170,246			242,348		412,594
FUND BALANCES							
Fund Balance:							
Nonspendable: Prepaid				156,779			156,779
Nonspendable: Inventory	40,192						40,192
Nonspendable: Scholarships						25,000	25,000
Restricted for Food Service	285,138						285,138
Restricted for School Readiness		24,771					24,771
Restricted for Community Education		78,424					78,424
Restricted for ECFE		38,720					38,720
Restricted for Community Service		20,304					20,304
Restricted for Bond Refunding					1,250,780		1,250,780
Restricted for OPEB Debt Service					56,529		56,529
Restricted for Scholarships						7,108	7,108
Restricted for District Programs			25,160				25,160
TOTAL FUND BALANCES	325,330	162,219	25,160	156,779	1,307,309	32,108	2,008,905
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 333,308	\$ 368,165	\$ 25,160	\$ 156,779	\$ 1,549,657	\$ 32,108	\$ 2,465,177

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, 2017

	Special Revenue Funds			Capital Project	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	\$	\$ 156,628	\$	\$	\$ 216,378	\$	\$ 373,006
Other Local & County Revenues	15,648	460,286	5,505	100		176	481,715
Revenue From State Sources	76,985	192,294			7,683		276,962
Revenue From Federal Sources	615,553						615,553
Sale/Other Conversion of Asset	555,035	3,750					558,785
TOTAL REVENUES	<u>1,263,221</u>	<u>812,958</u>	<u>5,505</u>	<u>100</u>	<u>224,061</u>	<u>176</u>	<u>2,306,021</u>
EXPENDITURES							
Current							
Elementary & Secondary							
Regular Instruction			12,544			800	13,344
Community Education and Services		873,151					873,151
Pupil Support Services	1,139,049						1,139,049
Debt Service							
Principal					155,000		155,000
Interest					82,500		82,500
Other Fees					47,563		47,563
Capital Outlay				89,273			89,273
TOTAL EXPENDITURES	<u>1,139,049</u>	<u>873,151</u>	<u>12,544</u>	<u>89,273</u>	<u>285,063</u>	<u>800</u>	<u>2,399,880</u>
Revenues Over (Under) Expenditures	124,172	(60,193)	(7,039)	(89,173)	(61,002)	(624)	(93,859)
OTHER FINANCING SOURCES							
Debt Issued					1,300,000		1,300,000
Transfer In		5,000					5,000
TOTAL OTHER FINANCING SOURCES		<u>5,000</u>			<u>1,300,000</u>		<u>1,305,000</u>
Net Change in Fund Balances	124,172	(55,193)	(7,039)	(89,173)	1,238,998	(624)	1,211,141
Fund Balances - Beginning	<u>201,158</u>	<u>217,412</u>	<u>32,199</u>	<u>245,952</u>	<u>68,311</u>	<u>32,732</u>	<u>797,764</u>
Fund Balances - Ending	<u>\$ 325,330</u>	<u>\$ 162,219</u>	<u>\$ 25,160</u>	<u>\$ 156,779</u>	<u>\$ 1,307,309</u>	<u>\$ 32,108</u>	<u>\$ 2,008,905</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, 2017

	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	\$	\$	\$ (155,538)	\$	\$	\$ 79,422
Restricted for:							
Staff Development		267,640	275,005	7,365			
Health and Safety	25,682	12,126					37,808
Deferred Maintenance	47,349			(47,349)			
Long Term Facility Maintenance		407,152	374,786	47,349			79,715
Operating Capital	662,771	633,610	418,148				878,233
Medical Assistance		43,313	4,314				38,999
Committed: Severance	44,407			3,173			47,580
Assigned for Technology	930,869			229,067			1,159,936
Assigned for Building Trades				85,000			85,000
Unassigned	3,587,716	21,030,742	20,977,033	(174,067)	1,075		3,468,433
Food Service Fund							
Nonspendable	46,234			(6,042)			40,192
Restricted: Food Service	154,924	1,263,221	1,139,049	6,042			285,138
Community Service Fund							
Restricted for:							
Community Education	130,329	420,743	472,648				78,424
ECFE	37,901	137,896	137,077				38,720
School Readiness	24,036	228,912	233,177	5,000			24,771
Community Service	25,146	25,407	30,249				20,304
Capital Project Fund							
Nonspendable	235,169			(78,390)			156,779
Restricted: Capital Project	10,783	100	89,273	78,390			
Gifts & Fundraising Fund							
Restricted: District Programs	32,199	5,505	12,544				25,160
Debt Service Fund							
Restricted for:							
Bond Refunding			349,858			9,999,039	9,649,181
Debt Service	605,070	3,072,192	3,001,330				675,932
OPEB Debt Service Fund							
Restricted for:							
Bond Refunding			49,220		1,300,000		1,250,780
OPEB Debt Service	68,311	224,061	235,843				56,529
Permanent Fund							
Nonspendable	25,000						25,000
Restricted: Scholarships	7,732	176	800				7,108
Fiduciary Fund							
OPEB Trust Fund							
Held in Trust for OPEB	1,520,449	12,698	168,584				1,364,563

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
GIFTS & FUNDRAISING FUND SCHEDULE
For the Year Ended June 30, 2017

	<u>Fourtown Grygla</u>	<u>Franklin Pop</u>	<u>Lincoln High General</u>	<u>Hall of Fame</u>	<u>Total</u>
FUND BALANCE - July 1	\$ 3,193	\$ 506	\$ 3,537	\$ 24,963	\$ 32,199
REVENUES					
Interest Earned	20	2	19	134	175
Gifts and Fundraising	<u>1,000</u>	<u> </u>	<u>4,000</u>	<u>330</u>	<u>5,330</u>
TOTAL REVENUES	<u>1,020</u>	<u>2</u>	<u>4,019</u>	<u>464</u>	<u>5,505</u>
EXPENDITURES					
Scholarships	<u> </u>	<u> </u>	<u>5,900</u>	<u>6,644</u>	<u>12,544</u>
TOTAL EXPENDITURES	<u> </u>	<u> </u>	<u>5,900</u>	<u>6,644</u>	<u>12,544</u>
FUND BALANCE - June 30	<u>\$ 4,213</u>	<u>\$ 508</u>	<u>\$ 1,656</u>	<u>\$ 18,783</u>	<u>\$ 25,160</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, each major fund, and the aggregate remaining fund information of Independent School District No. 564 as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2017. 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.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

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

October 18, 2017

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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, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of and for the year ended June 30, 2017, 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 18, 2017. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 18, 2017



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Board of 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, 2017. 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, 2017.

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 18, 2017

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017**

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	\$ 14,632
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	80,135
Title I	84.010	289,024
Special Education - Infants and Toddlers	84.181	7,555
<i>Special Education Cluster:</i>		
IDEA Part B 611	84.027	443,119
Preschool Incentives	84.173	14,765
<i>Total Special Education Cluster</i>		<u>457,884</u>
Passed-Through Pine to Prairie Cooperative:		
Carl Perkins	84.048A	<u>3,165</u>
Total Indirect		<u>837,763</u>
Total U.S. Department of Education		<u>852,395</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	100,016
National School Lunch Program	10.555	357,452
After School Snacks	10.555	4,089
Commodity Distribution (Nonmonetary Assistance)	10.555	89,616
Summer Food Program	10.559	64,380
<i>Total Child Nutrition Cluster</i>		<u>615,553</u>
Total U.S. Department of Agriculture		<u>615,553</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,467,948</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, 2017

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, 2017 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 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.

NOTE 5 SUBRECIPIENTS

During 2017, the District did not pass any federal money to subrecipients.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
 Internal control over financial reporting:
 Material weakness(es) identified? ___ yes x no
 Significant deficiency(s) identified? ___ yes x none reported

Noncompliance material to financial statements noted? ___ yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? ___ yes x no
 Significant deficiency(s) identified? ___ yes x none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___ yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	<i>Special Education Cluster (IDEA):</i>
84.027	IDEA Part B 611
84.173	Preschool Incentives

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? x 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.

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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, 2017, 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, 2017, 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 18, 2017

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2017

	Fund Balance 6-30-16	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-17
<u>Lincoln High School</u>					
Area Learning Center	\$ 159	\$	\$ 30	\$ 91	\$ 220
Art	51	240		(3)	288
Band	1,275	47,989	47,331	(1,367)	566
Baseball Fundraising	6,150	15,440	12,370	(2)	9,218
Boys Basketball	107	10,828	9,169	(3)	1,763
Boys Golf		916	753	(25)	138
Boys Swimming	4	765	766	(2)	1
Boys Tennis		5,267	2,924	(1,712)	631
Class of 2017	2,844	3,207	6,880	829	
Class of 2018	992	183	35	(3)	1,137
Class of 2019	10	5,494	2,726	(3)	2,775
Class of 2020		1,083	226	(2)	855
CoExist	78			(78)	
College & Career	1,579		615	(2)	962
Clay Target League	175			(175)	
Close Up	1,023	6,471	6,397	(2)	1,095
Counseling		695		(695)	
Community Action Club	184			(2)	182
Drama	1,412	1,370	1,291	(3)	1,488
Envirothon	20	1,877	1,021	(2)	874
F.F.A.	6,723	20,856	17,345	170	10,404
Football	2,339	33,325	29,674	(5)	5,985
German Club	4,296	15,621	19,477	1,363	1,803
Girls Basketball Fundraising	1,370	16,961	21,596	3,965	700
Girls Golf Fundraising	90	2,296	1,307	(3)	1,076
Girls Hockey Fundraising	92	50		(2)	140
Girls Swimming Fundraising	10,018	9,662	10,487	(3)	9,190
Girls Tennis	281	2,280	3,748	1,487	300
Interest	42	49		(42)	49
Math Counts	137	150	90	(3)	194
Math League	951	150	173	(2)	926
Miles Club	3,533	2,474	5,885	(2)	120
Multicultural Student Services	271			(3)	268
National Honor Society	1,970	3,752	3,591	(2)	2,129
Orchestra		1,948	1,449	(2)	497
PE	7			(7)	
Prom	4,615	11,284	10,159	(834)	4,906
Prowler Advertising	11,197	9,695	15,170	(5,196)	526
Prowler Potential	2,520	985	1,658	501	2,348
Retail Lab	4,838		5,161	324	1
Robotics	65	3,031	1,954	(2)	1,140
Science Fair	1,442			(3)	1,439
Softball Fundraising		150	190	40	
Special Education Fundraising	93			(93)	
Special Student Activities	1,520	55	547	(2)	1,026
Special Olympics	1,234	500	203	(3)	1,528

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
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS
(CONTINUED)
For the Year Ended June 30, 2017**

	Fund Balance 6-30-16	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-17
<u>Lincoln High School (Continued)</u>					
Speech	1,154	3,230	3,790	(2)	592
Student Activities	814		487	(3)	324
Student Senate	368	1,577	813	(3)	1,129
Track Fundraising	720	640	760	(3)	597
T-shirt	390			(390)	
Weight Room		13,160	9,012	(157)	3,991
Wrestling Fundraising	140	150	2,086	2,083	287
Volleyball	259	1,432	1,408	(3)	280
Yearbook		4,115	4,111	(2)	2
Total Lincoln High School	79,552	261,403	264,865		76,090
<u>Franklin Middle School</u>					
Activity Day	2,420	3,712	2,920	(229)	2,983
Sixth Grade Book Fair	17	2,748	4,125	1,381	21
Class of 2020	670		670		
Class of 2021	7,158	2,710	10,963	2,519	1,424
Class of 2022	14,019		4,592	2,174	11,601
Class of 2023		26,565	31,444	12,851	7,972
Geckler	1,324	56,434	33,800	(21,325)	2,633
Jazz Band	(446)	14,673	14,149		78
KIC		1,766	2,092	326	
PBIS		4,500	239	9	4,270
Prowler Plus	8,657	163	120	(378)	8,322
School Store	13,827	3,638	4,675	58	12,848
Science Fair	240	771	1,100	89	
Student Council	470	1,563	2,629	1,503	907
Sunrise Singers	17			(17)	
Turn Around	6,012	3,382	3,527	1,028	6,895
Yearbook	2,658	4,180	4,221	11	2,628
Total Franklin Middle School	57,043	126,805	121,266		62,582
<u>Challenger Elementary School</u>					
Book Project	32				32
Deep Portage	11,932	64,887	58,455		18,364
Student Community Account	5,010		2,853		2,157
Kindergarten Parties	363	421	680		104
Destination Imagination	118				118
Readathon	573				573
PE Activities	1,050	3,242	3,878		414
School Store	2,074	6,342	6,154		2,262
Science	959				959
Total Challenger Elementary School	22,111	74,892	72,020		24,983
Total All Funds	\$ 158,706	\$ 463,100	\$ 458,151	\$	\$ 163,655

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, 2017**

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 student activity accounts of Independent School District No. 564, for the year ended June 30, 2017, and the related notes to the financial statement, and have issued our report thereon dated October 18, 2017, 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 2017-001(a), 2017-002(a), and 2017-003(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 black ink that reads "Brady Martz".

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

October 18, 2017

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS
June 30, 2017**

2017-001(a) FINDING

Criteria

Per the UFARS Manual for Activity Fund Accounting (MAFA), the District board must approve all contracts and the payments for the contracted goods or services must be made by the district following the normal district processes. MAFA also states that “Capital and non-capital equipment purchases funded by a student activity group become the property of the district. Payments for equipment need to be processed and paid by the district via normal district processes. The payments must not be made directly from the student activity account. The student activity account must reimburse the district for the equipment purchase.”

Condition

Student activities entered into contracts for goods or services without obtaining board approval and paid for those contracts out of the student activity accounts. A student activity account also purchased equipment.

Cause

Oversight by district staff.

Effect

The District and the student activity account are not in compliance with the Manual for Activity Fund Accounting.

Recommendation

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 equipment and the student activity account should reimburse the district.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will correct immediately.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS
June 30, 2017**

2017-002(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

Student activity accounts currently include non-student related accounts.

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 correct immediately.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS
June 30, 2017**

2017-003(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

Inactive student activity accounts have not been closed according to the MAFA rules or do not have the proper approval from the principal.

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 correct immediately

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
CORRECTIVE ACTION PLAN – STUDENT ACTIVITY ACCOUNTS
June 30, 2017**

2017-001(a) FINDING

Contact Person – District Business Manager

Corrective Action Plan – The District will approve and pay for contracts for goods, services or equipment and be reimbursed by the student activity account.

Completion Date – Immediately

2017-002(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

2017-003(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, 2017

District Name: INDEPENDENT SCHOOL DISTRICT NO. 564

District Number: 564

	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	22,394,583	22,394,583		Total Revenue	100	100	
Total Expenditures	22,049,286	22,049,286		Total Expenditures	89,273	89,273	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	79,422	79,422		460 Non Spendable Fund Balance	156,779	156,779	
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development				407 Capital Projects Levy			
406 Health & Safety	37,808	37,808		409 Alternative Facility Program			
407 Capital Projects Levy				413 Projects Funded By COP			
408 Cooperative Revenue				<i>Restricted</i>			
413 Building Projects Funded by COP				464 Restricted Fund Balance			
414 Operating Debt				<i>Unassigned:</i>			
416 Levy Reduction				463 Unassigned Fund Balance			
417 Taconite Building Maintenance				Reconciliation of Building Construction	246,152	246,152	
424 Operating Capital	878,233	878,233		07 DEBT SERVICE			
426 \$25 Taconite				Total Revenue	3,072,192	3,072,192	
427 Disabled Accessibility				Total Expenditures	3,351,188	3,351,188	
428 Learning & Development				<i>Non Spendable</i>			
434 Area Learning Center				460 Non Spendable Fund Balance			
435 Contracted Alt Programs				<i>Restricted/Reserved:</i>			
436 State Approved Alt Program				425 Bond Refundings	9,649,181	9,649,181	
438 Gifted & Talented				451 QZAB Payments			
440 Teacher Development and Eval.				<i>Restricted</i>			
441 Basic Skills Programs				464 Restricted Fund Balance	675,932	675,932	
445 Career and Technical Programs				<i>Unassigned:</i>			
449 Safe Schools Levy				463 Unassigned Fund Balance			
451 QZAB Payments				Reconciliation of Debt Service	16,748,493	16,748,493	
452 OPEB Liab Not In Trust				08 TRUST			
453 Unfunded Sev & Retirement Levy				Total Revenue	5,681	5,682	(1)
467 Long Term Facilities Maintenance	79,715	79,715		Total Expenditures	13,344	13,344	
472 Medical Assistance	38,999	38,999		<i>Unassigned:</i>			
<i>Restricted</i>				422 Unassigned Fund Balance	57,268	57,269	(1)
464 Restricted Fund Balance				Reconciliation of Trust	76,293	76,295	(2)
<i>Committed</i>				20 INTERNAL SERVICE			
418 Committed for Separation	47,580	47,580		Total Revenue			
461 Committed				Total Expenditures			
<i>Assigned</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	1,244,936	1,244,936		422 Unassigned Fund Balance			
<i>Unassigned:</i>				Reconciliation of Internal Service			
422 Unassigned Fund Balance	3,468,433	3,468,433		25 OPEB REVOCABLE TRUST FUND			
Reconciliation of General	50,318,995	50,318,995		Total Revenue			
02 FOOD SERVICE				Total Expenditures			
Total Revenue	1,263,221	1,263,220	1	<i>Unassigned:</i>			
Total Expenditures	1,139,049	1,139,049		422 Unassigned Fund Balance			
<i>Non Spendable</i>				Reconciliation of OPEB Revocable Trust			
460 Non Spendable Fund Balance	40,192	40,192		45 OPEB IRREVOCABLE TRUST FUND			
<i>Restricted/Reserved:</i>				Total Revenue	12,698	12,698	
452 OPEB Liab Not In Trust				Total Expenditures	168,584	168,584	
<i>Restricted</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	285,138	285,138		422 Unassigned Fund Balance	1,364,563	1,364,563	
<i>Unassigned</i>				Reconciliation of OPEB Irrevocable Trust	1,545,845	1,545,845	
463 Unassigned Fund Balance				47 OPEB DEBT SERVICE FUND			
Reconciliation of Food Service	2,727,600	2,727,599	1	Total Revenue	224,061	224,061	
04 COMMUNITY SERVICE				Total Expenditures	285,063	285,063	
Total Revenue	812,958	812,957	1	<i>Non Spendable</i>			
Total Expenditures	873,151	873,151		460 Non Spendable Fund Balance			
<i>Non Spendable</i>				<i>Restricted</i>			
460 Non Spendable Fund Balance				425 Bond Refunding	1,250,780	1,250,780	
<i>Restricted/Reserved:</i>				464 Restricted Fund Balance	56,529	56,529	
426 \$25 Taconite				<i>Unassigned</i>			
431 Community Education	78,424	78,424		463 Unassigned Fund Balance			
432 E. C. F. E.	38,720	38,720		Reconciliation of OPEB Debt Service	1,816,433	1,816,433	
440 Teacher Development and Eval.				01 GENERAL FUND			
444 School Readiness	24,771	24,771		Total Revenue	22,394,583	22,394,583	
447 Adult Basic Education				Total Expenditures	22,049,286	22,049,286	
452 OPEB Liab Not In Trust				<i>Non Spendable</i>			
<i>Restricted</i>				460 Non Spendable Fund Balance	79,422	79,422	
464 Restricted Fund Balance	20,304	20,304		<i>Restricted/Reserved:</i>			
<i>Unassigned</i>				403 Staff Development			
463 Unassigned Fund Balance				406 Health & Safety	37,808	37,808	
Reconciliation of Community Service	1,848,328	1,848,327	1	407 Capital Projects Levy			