

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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

	<u>Pages</u>
Roster of School Officials	1
Independent Auditor’s Report	2-4
REQUIRED SUPPLEMENTARY INFORMATION	
Management’s Discussion and Analysis	5-11
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	12-13
Statement of Activities	14
Balance Sheet - Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Net Position	20
Notes to Basic Financial Statements	21-41
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule for the General Fund.....	42
Note to the Required Supplementary Information	43
Schedule of Funding Progress for Other Postemployment Benefits	44
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Nonmajor Governmental Funds	45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	46
Schedule of Changes in Fund Balances and Net Position	47
Gifts & Fundraising Fund Schedule	48

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

	<u>Pages</u>
Independent Auditor’s Report on Minnesota Legal Compliance.....	49
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	50-51
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB A-133.....	52-53
Schedule of Expenditures of Federal Awards.....	54
Notes to the Schedule of Expenditures of Federal Awards	55
Schedule of Findings and Questioned Costs.....	56
Schedule of Prior Audit Findings	57
OTHER INFORMATION	
Independent Auditor’s Report on the Statement of Cash Receipts and Disbursements of the Student Activity Accounts	58-59
Statement of Cash Receipts and Disbursements of the Student Activity Accounts	60-61
Note to Student Activity Accounts Financial Statement.....	62
Independent Auditor’s Report on Compliance	63
SUPPLEMENTARY INFORMATION	
Uniform Financial Accounting and Reporting Standards Compliance Table	64

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2014**

Mike Spears	Chairman
Misty Hempel	Vice-Chairman
Jon Lindgren	Clerk
Kevin Ballard	Treasurer
Shannon Boen	Director
Chris Melbye	Director
Wayne Nomeland	Director
Tanya Monson-Ek	District Business Manager
Laine Larson	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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Independent School District No. 564, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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. 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress for other postemployment benefits as listed in the table of contents 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.

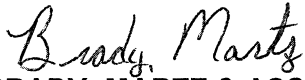
Other Information

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 schedules, tables, 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 21, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



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

October 21, 2014

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

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, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

For the year ending June 30, 2014, the District's unassigned fund balance increased from \$3,791,902 to \$3,940,677 or an increase of \$148,775.

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, 2014**

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

The District maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital project fund all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was \$16,283,505 on June 30, 2014 (see details in Table A-1). This was a decrease of 10.2 percent from the prior year.

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

	<u>2014</u>	<u>2013</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 36,007,155	\$ 43,542,237	(17.3) %
Capital Assets	45,589,078	36,063,259	26.4
Total Assets	<u>81,596,233</u>	<u>79,605,496</u>	2.5
Long-term Liabilities	54,464,751	49,831,569	9.3
Other Liabilities	2,950,239	6,092,275	(51.6)
Total Liabilities	<u>57,414,990</u>	<u>55,923,844</u>	2.7
Deferred Inflows of Resources	<u>7,897,738</u>	<u>5,558,447</u>	42.1
Net Position			
Net Investment in Capital Assets	13,960,427	14,745,074	(5.3)
Restricted	2,091,852	1,652,624	26.6
Unrestricted	231,226	1,725,507	(86.6)
Total Net Position	<u>\$ 16,283,505</u>	<u>\$ 18,123,205</u>	(10.2) %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

Change in Net Position

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

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

	<u>2014</u>	<u>2013</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 1,302,615	\$ 1,150,893	13.2 %
Operating Grants and Contributions	4,777,123	4,306,564	10.9
Capital Grants and Contributions	335,259	346,023	(3.1)
General Revenues			
Property Taxes	4,090,405	4,822,456	(15.2)
Unrestricted State Aid	14,156,442	13,088,308	8.2
Other Sources	409,817	462,815	(11.5)
Total Revenues	<u>25,071,661</u>	<u>24,177,059</u>	3.7
Expenses			
Administration	1,334,833	1,285,735	3.8
District Support Services	500,246	472,546	5.9
Elementary & Secondary Regular Instruction	9,341,470	8,971,673	4.1
Vocational Education Instruction	367,539	355,031	3.5
Special Education Instruction	2,985,391	3,030,051	(1.5)
Community Education and Services	629,041	624,804	0.7
Instructional Support Services	1,102,146	1,079,396	2.1
Pupil Support Services	2,646,648	2,517,515	5.1
Sites and Buildings	5,658,763	3,575,584	58.3
Fixed Costs	68,513	68,021	0.7
Interest on Long-Term Debt	1,801,103	1,679,601	7.2
Depreciation - Unallocated	475,668	506,490	(6.1)
Total Expenses	<u>26,911,361</u>	<u>24,166,447</u>	11.4
Change in Net Position	(1,839,700)	10,612	(17,436.0)
Net Position - Beginning	<u>18,123,205</u>	<u>18,112,593</u>	0.1
Net Position - Ending	<u>\$ 16,283,505</u>	<u>\$ 18,123,205</u>	(10.2) %

Changes in net position. The District's total revenues were \$25,071,661 for the year ended June 30, 2014. Property taxes and state aid payments accounted for 88 percent of total revenue for the year.

The total cost of all programs and services was \$26,911,361. The District's expenses are predominantly related to educating and caring for students.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

Total expenses surpassed revenues, decreasing net position \$1,839,700 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)
	2014	2013		
Governmental Funds				
General	\$ 5,523,211	\$ 4,963,984	\$ 559,227	11.3 %
Debt Service Fund	963,866	853,652	110,214	12.9
Capital Project	2,311,299	7,714,526	(5,403,227)	(70.0)

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

General Fund

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

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

**Table A-4
General Fund Revenue**

	2014	2013	Amount of Increase (Decrease)	Percent Increase (Decrease)
			(Decrease)	(Decrease)
Local Sources				
Property Taxes	\$ 1,208,479	\$ 2,053,222	\$ (844,743)	(41.1) %
Interest Earnings	20,540	21,731	(1,191)	(5.5)
Other	789,212	771,744	17,468	2.3
State Sources	17,406,405	16,014,608	1,391,797	8.7
Federal Sources	996,442	959,861	36,581	3.8
Other	29,335	6,580	22,755	345.8
Total General Fund Revenue	\$ <u>20,450,413</u>	\$ <u>19,827,746</u>	\$ <u>622,667</u>	3.1 %

Total general fund revenue increased by \$622,667 or 3.1 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.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

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

**Table A-5
General Fund Expenditures**

	<u>2014</u>	<u>2013</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 12,718,746	\$ 12,279,504	\$ 439,242	3.6 %
Employee Benefits	3,444,112	3,276,583	167,529	5.1
Purchased Services	1,519,059	1,498,893	20,166	1.3
Supplies and Materials	1,224,079	1,004,158	219,921	21.9
Capital Expenditures	663,779	1,285,405	(621,626)	(48.4)
Debt Service	238,767	221,170	17,597	8.0
Other Expenditures	156,631	131,533	25,098	19.1
Total General Fund Expenditures	<u>\$ 19,965,173</u>	<u>\$ 19,697,246</u>	<u>\$ 267,927</u>	1.4 %

General Fund Budgetary Highlights

During the year the District revised its budget.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$254,027. The actual results for the year show a surplus of \$559,227.

- Actual revenue amounts were higher than budgeted in areas of special education revenue, general education revenue, property tax revenue, and other local revenues.
- The District is monitoring and controlling expenses.

Capital Assets and Debt Administration

Capital Assets

Note 5 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2014. Additions totaling \$10,894,405 consisted of building improvements, site improvements, and equipment.

Long-Term Debt

At year-end, the District had \$56,054,125 of long-term debt. This consisted of bonded indebtedness net of premiums and discounts of \$54,455,258, energy service payable of \$1,132,162, capital lease payable of \$212,969, accrued interest payable of \$210,332 and severance payable of \$43,404. Note 9 to the financial statements present details and payment provisions of these items.

In 2013, the District received an A1 underlying rating from Moody's Investor Services.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

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 81% of general fund expenditures.
- The District has had to borrow in the past due to the state of Minnesota's general education aid and property tax shifts. The state of Minnesota's economic outlook improved in 2012-2013. As a result, school districts have now been repaid the general education revenue shift back to the normal level of 90 percent reimbursement. This has a positive impact on the District's cash flows and eliminates the need to borrow funds to fund normal operations.

Contacting the District's Financial Management

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2014

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
ASSETS		
Cash and Investments	\$ 9,238,404	\$ 83,886
Restricted Cash		812,786
Property Taxes Receivable, Net of Allowance	2,668,145	
Accounts Receivable	125,758	
Due From MN School Districts	21,355	
Due From Department of Education	1,892,754	
Due From Federal Govt. - DOE	510,952	
Prepaid Expenses	162,728	
Inventory	49,063	
Net Other Postemployment Benefit Asset	1,195,122	
Note Receivable - USBCDC	20,010,394	
Capital Assets		
Land, Construction in Process	780,844	1,814,454
Other Capital Assets, Net of Depreciation	44,808,234	23,899,267
Other Assets		
Contribution TRF EDA	132,480	
Intangible Assets, Net of Accumulated Amortization		969,379
TOTAL ASSETS	<u>81,596,233</u>	<u>27,579,772</u>
DEFERRED OUTFLOWS OF RESOURCES		
Accrued Revenue		3,153,076
TOTAL DEFERRED OUTFLOWS OF RESOURCES		<u>3,153,076</u>
LIABILITIES		
Accounts Payable	177,652	
Accrued Expenses		10,398
Contracts Payable	398,923	231,767
Due To Other MN School Districts	18,411	
Due To Other Governmental Units	144	
Payroll Deductions	44,877	
Interest Payable	626,992	69,500
Vacation Payable	93,866	
Long-Term Liabilities Due Within One Year	1,589,374	
Long-Term Liabilities		
Bonds, Net Unamortized Premiums (Discounts)	54,455,258	
Capital Lease Payable	212,969	
Energy Service Payable	1,132,162	
Notes Payable - MMCDC		18,800,000
Notes Payable - USBCDE		9,000,000
Interest Payable	210,332	
Severance Payable	43,404	
Less Amounts Due Within One Year	(1,589,374)	
Total Long-Term Liabilities	<u>54,464,751</u>	<u>27,800,000</u>
TOTAL LIABILITIES	<u>57,414,990</u>	<u>28,111,665</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2014**

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Unearned	17,410	
Deferred Rent Payable	3,153,076	
Property Taxes Levied - Subs. Years	<u>4,727,252</u>	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>7,897,738</u>	
NET POSITION		
Net Investment in Capital Assets	13,960,427	
Restricted for:		
Deferred Maintenance	302,438	
Operating Capital	1,031,287	
Food Service	182,866	
Community Education	115,651	
ECFE	17,526	
School Readiness	19,946	
Community Service	22,115	
Capital Project	138,568	
Debt Service	165,602	
OPEB Debt Service	25,614	
District Programs	37,284	
Permanent Fund - Non Expendable	7,955	
Permanent Fund - Expendable	25,000	
Unrestricted	231,226	
Member's Equity		<u>2,621,183</u>
TOTAL NET POSITION	<u>\$ 16,283,505</u>	<u>\$ 2,621,183</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit TRF EDA
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES						
Administration	\$ 1,334,833	\$	\$	2,100	\$ (1,332,733)	\$
District Support Services	500,246			3,100	(497,146)	
Elementary & Secondary Regular Instruction	9,341,470	297,945	1,796,364	122,000	(7,125,161)	
Vocational Education Instruction	367,539		29,291		(338,248)	
Special Education Instruction	2,985,391	12,217	1,968,476		(1,004,698)	
Community Education and Services	629,041	358,036	146,442		(124,563)	
Instructional Support Services	1,102,146	47,112	245,622	35,500	(773,912)	
Pupil Support Services	2,646,648	565,430	589,858	30,800	(1,460,560)	
Sites and Buildings	5,658,763	21,875	1,070	141,759	(5,494,059)	
Fixed Costs	68,513				(68,513)	
Interest on Long-Term Debt	1,801,103				(1,801,103)	
Depreciation - Unallocated	475,668				(475,668)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 26,911,361	\$ 1,302,615	\$ 4,777,123	\$ 335,259	(20,496,364)	
COMPONENT UNIT:						
TRF EDA	\$ 987,110	\$ 2,084,545	\$	\$		1,097,435
GENERAL REVENUES						
Taxes						
Property Taxes, Levied for General Purposes					1,197,722	
Property Taxes, Levied for Community Education and Services					66,067	
Property Taxes, Levied for Debt Services					2,579,956	
Property Taxes, Levied for OPEB Debt Services					246,660	
Unrestricted State Aid					14,156,442	
Unrestricted Investment Earnings					22,763	
Gain on Sale of Capital Asset					8,000	
Other General Revenue					379,054	
TOTAL GENERAL REVENUES					18,656,664	
Change in Net Position					(1,839,700)	1,097,435
Net Position - Beginning					18,123,205	1,391,268
Equity Contributions						132,480
Net Position - Ending					\$ 16,283,505	\$ 2,621,183

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, 2014

	General Fund	Debt Service Fund	Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 3,897,703	\$ 2,117,016	\$ 2,622,933	\$ 600,752	\$ 9,238,404
Current Property Taxes Receivable	957,609	1,496,390		221,053	2,675,052
Delinquent Property Taxes Receivable	28,068	55,048		11,977	95,093
Accounts Receivable	116,697			9,061	125,758
Due From MN School Districts	21,355				21,355
Due From Department of Education	1,867,833	8,342		16,579	1,892,754
Due From Federal Govt. - DOE	499,223			11,729	510,952
Prepaid Expenses	24,160		138,568		162,728
Inventory				49,063	49,063
TOTAL ASSETS	\$ 7,412,648	\$ 3,676,796	\$ 2,761,501	\$ 920,214	\$ 14,771,159
LIABILITIES					
Accounts Payable	\$ 121,110		\$ 51,279	\$ 5,263	\$ 177,652
Contract Payable			398,923		398,923
Due To Other MN School Districts	18,411				18,411
Due To Other Governmental Units	144				144
Payroll Deductions	44,877				44,877
TOTAL LIABILITIES	184,542		450,202	5,263	640,007
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Unearned				17,410	17,410
Unavailable Revenue - Delinquent Taxes	28,068	55,048		11,977	95,093
Property Taxes Levied - Subs. Years	1,676,827	2,657,882		392,543	4,727,252
TOTAL DEFERRED INFLOWS OF RESOURCES	1,704,895	2,712,930		421,930	4,839,755
FUND BALANCES					
Fund Balance:					
Nonspendable: Prepaid	24,160		138,568		162,728
Nonspendable: Inventory				49,063	49,063
Nonspendable: Scholarships				25,000	25,000
Restricted for Deferred Maintenance	302,438				302,438
Restricted for Operating Capital	1,031,287				1,031,287
Restricted for Capital Project			2,172,731		2,172,731
Restricted for School Readiness				19,946	19,946
Restricted for Food Service				133,803	133,803
Restricted for Community Education				115,651	115,651
Restricted for ECFE				17,526	17,526
Restricted for Community Service				22,115	22,115
Restricted for OPEB Debt Service				64,678	64,678
Restricted for Debt Service		963,866			963,866
Restricted for Scholarships				7,955	7,955
Restricted for District Programs				37,284	37,284
Committed for Severance	43,404				43,404
Assigned for Technology	181,245				181,245
Unassigned	3,940,677				3,940,677
TOTAL FUND BALANCES	5,523,211	963,866	2,311,299	493,021	9,291,397
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 7,412,648	\$ 3,676,796	\$ 2,761,501	\$ 920,214	\$ 14,771,159

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 BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2014

Total fund balances - governmental funds \$ 9,291,397

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	64,381,934
Less accumulated depreciation	(18,792,856)

Net other postemployment benefit assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 1,195,122

Other assets (Contribution TRF EDA) used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 132,480

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	(54,714,458)
Capital lease payable	(212,969)
Energy service payable	(1,132,162)
Unamortized premiums (discounts)	259,200
Severance payable	(43,404)

Vacation payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (93,866)

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. 95,093

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. (837,324)

Deferred rent payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (3,153,076)

Net position - governmental activities \$ 16,283,505

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, 2014

	General Fund	Debt Service Fund	Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local Property Tax Levies	\$ 1,208,479	\$ 2,571,381	\$	\$ 311,694	\$ 4,091,554
Other Local & County Revenues	809,752	2,172	15,552	375,425	1,202,901
Revenue From State Sources	17,406,405	83,417		264,362	17,754,184
Revenue From Federal Sources	996,442			472,024	1,468,466
Sale/Other Conversion of Asset	29,335			518,369	547,704
TOTAL REVENUES	20,450,413	2,656,970	15,552	1,941,874	25,064,809
EXPENDITURES					
Current					
Administration	1,330,471				1,330,471
District Support Services	493,519				493,519
Elementary & Secondary					
Regular Instruction	9,073,410			3,600	9,077,010
Vocational Education Instruction	363,453				363,453
Special Education Instruction	2,982,244				2,982,244
Community Education and Services				627,948	627,948
Instructional Support Services	1,051,298				1,051,298
Pupil Support Services	1,514,945			1,020,181	2,535,126
Sites and Buildings	2,184,775				2,184,775
Fixed Costs	68,513				68,513
Debt Service					
Principal	183,836	1,105,000		141,753	1,430,589
Interest	54,930	1,441,756		99,198	1,595,884
Capital Outlay	663,779		11,386,448	9,715	12,059,942
TOTAL EXPENDITURES	19,965,173	2,546,756	11,386,448	1,902,395	35,800,772
Revenues Over (Under) Expenditures	485,240	110,214	(11,370,896)	39,479	(10,735,963)
OTHER FINANCING SOURCES (USES)					
Debt Issued	83,987		6,089,458		6,173,445
Premium on Bonds			(121,789)		(121,789)
Transfers In				10,000	10,000
Transfers Out	(10,000)				(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	73,987		5,967,669	10,000	6,051,656
Net Change in Fund Balances	559,227	110,214	(5,403,227)	49,479	(4,684,307)
Fund Balances - Beginning	4,963,984	853,652	7,714,526	443,542	13,975,704
Fund Balances - Ending	\$ 5,523,211	\$ 963,866	\$ 2,311,299	\$ 493,021	\$ 9,291,397

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, 2014**

Total net change in fund balances - governmental funds \$ (4,684,307)

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

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

Capital outlays	10,886,405
Depreciation expense	(1,368,586)

The gain on trade-in of capital assets increases net position.	8,000
--	-------

Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	1,430,589
--	-----------

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.	(6,173,445)
---	-------------

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.	(83,430)
--	----------

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.	(1,801,691)
---	-------------

Construction costs associated with the District Service Center project was contributed to the TRF EDA; on the statement of net position, the contribution increases other assets. Capital outlays are reported in the governmental funds as expenditures.	132,480
---	---------

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(1,150)
--	---------

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	160
Other postemployment benefits	(206,557)
Severance payable	<u>21,832</u>

Change in net position - governmental activities	<u>\$ (1,839,700)</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, 2014**

	<u>OPEB Trust Fund</u>
ASSETS	
Investments	\$ <u>1,635,595</u>
TOTAL ASSETS	<u>1,635,595</u>
NET POSITION	
Held in Trust for OPEB	\$ <u><u>1,635,595</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, 2014**

	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	\$ <u>6,635</u>
TOTAL ADDITIONS	<u>6,635</u>
DEDUCTIONS	
Benefits	<u>187,125</u>
TOTAL DEDUCTIONS	<u>187,125</u>
Change in Net Position	(180,490)
Net Position Held in Trust for OPEB - Beginning	<u>1,816,085</u>
Net Position Held in Trust for OPEB - Ending	<u>\$ <u>1,635,595</u></u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Reporting Entity

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

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

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

C. Component Units

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

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

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

Description of Funds

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

Major Governmental Funds

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

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

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

Nonmajor Governmental Funds

Special Revenue Funds:

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

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

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

Debt Service Funds:

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

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

Fiduciary Fund

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

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.

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 2013 which are not payable until 2014, 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.

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.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

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.

Other Asset – Contribution TRF EDA – During the 2013-2014 school year, the District contributed \$132,480 to the TRF EDA for construction costs at the District Service Center.

Intangible Assets – Component Unit – Intangible assets consist of lease acquisition costs and loan fees (the “Fees”) in the amount of \$1,042,343. The Fees are amortized on a straight-line basis over twenty-five years, the term of the loans and lease. As of June 30, 2014, accumulated amortization was \$72,964. For the year ending June 30, 2014, amortization expense was \$28,847, and amortization capitalized to fixed assets was \$12,847.

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.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

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.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position and balance sheet 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 does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position and balance sheet 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 four 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, *unavailable revenue – unearned*, represents grant funds received in advance of timing requirements. The fourth 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.

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

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, assigned, and unassigned fund balance categories, of not less than 10 percent and not more than 25 percent with the optimal fund balance of 15 percent of the general fund’s current annual operating expenditure budget.

G. Use of Estimates

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

NOTE 2 DEPOSITS AND INVESTMENTS

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

The District’s interest income for the year ended June 30, 2014, was \$29,435.

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

	Governmental Activities	Fiduciary Fund	Total
Cash	\$ 61,917	\$	\$ 61,917
Investments	9,176,487	1,635,595	10,812,082
Total	<u>\$ 9,238,404</u>	<u>\$ 1,635,595</u>	<u>\$ 10,873,999</u>

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

As of June 30, 2014, the District had the following investments:

Investments	Fair Value
Minnesota School District Liquid Asset Fund	\$ 75,805
MnTrust	10,736,277
	<u>\$ 10,812,082</u>

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

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, 2014, the District was not exposed to custodial credit risk.

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

NOTE 3 RESTRICTED CASH – COMPONENT UNIT

As of June 30, 2014, the Thief River Falls Economic Development Association's restricted cash consisted of the following:

Audit and Tax Fee Reserve	\$	69,939
Construction Disbursement Reserve		72,337
MMCDC Reserves		613,655
USBCDC Reserves		56,855
	\$	<u>812,786</u>

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

NOTE 4 NOTE RECEIVABLE FROM USBCDC

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

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 780,844	\$	\$	\$ 780,844
Constuction in Process	<u>19,048,936</u>		<u>19,048,936</u>	
Total Capital Assets, Not Being Depreciated	<u>19,829,780</u>		<u>19,048,936</u>	<u>780,844</u>
 Capital Assets, Being Depreciated:				
Land Improvements	1,162,594	39,048		1,201,642
Buildings	27,835,577	29,601,491		57,437,068
Equipment	<u>4,715,686</u>	<u>302,802</u>	<u>56,108</u>	<u>4,962,380</u>
Total Capital Assets, Being Depreciated	<u>33,713,857</u>	<u>29,943,341</u>	<u>56,108</u>	<u>63,601,090</u>
 Less Accumulated Depreciation For:				
Land Improvements	666,499	40,801		707,300
Buildings	12,956,197	1,164,748		14,120,945
Equipment	<u>3,857,682</u>	<u>163,037</u>	<u>56,108</u>	<u>3,964,611</u>
Total Accumulated Depreciation	<u>17,480,378</u>	<u>1,368,586</u>	<u>56,108</u>	<u>18,792,856</u>
 Total Capital Assets, Being Depreciated, Net	<u>16,233,479</u>	<u>28,574,755</u>		<u>44,808,234</u>
 Governmental Activities Capital Assets, Net	<u>\$ 36,063,259</u>	<u>\$ 28,574,755</u>	<u>\$ 19,048,936</u>	<u>\$ 45,589,078</u>

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

Elementary & Secondary Regular Instruction	\$ 15,156
Vocational Education Instruction	1,437
Pupil Support Services	102,269
Sites and Buildings	<u>774,056</u>
	892,918
Unallocated	475,668
Total Depreciation Expense	<u>\$ 1,368,586</u>

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

Changes in capital assets for the discretely presented component unit for the period ending June 30, 2014 was as follows:

Component Unit:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Constuction in Process	\$ 20,418,159	\$ _____	\$ 18,603,705	\$ 1,814,454
Capital Assets, Being Depreciated:				
Building		23,748,586		23,748,586
Equipment	729,755			729,755
Total Capital Assets, Being Depreciated	<u>729,755</u>	<u>23,748,586</u>		<u>24,478,341</u>
Less Accumulated Depreciation:		<u>579,074</u>		<u>579,074</u>
Total Capital Assets, Being Depreciated, Net	<u>729,755</u>	<u>23,169,512</u>		<u>23,899,267</u>
Total Capital Assets	<u>\$ 21,147,914</u>	<u>\$ 23,169,512</u>	<u>\$ 18,603,705</u>	<u>\$ 25,713,721</u>

NOTE 6 DEFINED BENEFIT PENSION PLANS- STATEWIDE

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

Disclosures relating to these plans follow:

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description - All full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

(Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equals 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, or by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or 1-800-652-9026.

Funding Policy - Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ended June 30, 2014, 2013, and 2012 were \$271,038, \$265,484, and \$255,035, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

B. TEACHERS RETIREMENT ASSOCIATION

Plan Description - All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

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.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

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 as described:

<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: 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. 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. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.4 percent per year.

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

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

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

provisions. The report may be accessed at the TRA web site www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing TRA, 60 Empire Drive Suite 400, St Paul, MN 55103-4000, or by calling (651)296-2409 or (800)657-3669.

Funding Policy - Minnesota Statutes Section 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 7.0 percent and 10.0 percent, respectively, of their annual covered salary as employee contributions. The employer contribution rate for Coordinated and Basic Plan members is 7.0 percent and 10.5 percent, respectively. Total covered payroll salaries for all TRA members statewide during fiscal year ended June 30, 2013, was approximately \$3.92 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2012 and June 30, 2011 were \$3.87 billion and \$3.84 billion, respectively.

The District's contributions for the years ending June 30, 2014, 2013, and 2012 were \$626,411, \$563,451, and \$526,175, respectively, equal to the required contributions for each year as set by state statute.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates increased by 0.5 percent on July 1 of each year of the four-year period ending in 2014. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5 percent.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. At June 30, 2014, 49 retired employees and spouses were eligible to participate.

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

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

The District may contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The pay as you go cost for OPEB benefits is \$366,693. The annual employer contributions were \$187,125 transferred from the OBEB trust and \$179,568 was implicit subsidy. These costs are recognized as an expense when claims or premiums are paid.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 346,437	\$ 346,437	\$ 375,205
Interest on Net OPEB Obligation	(49,059)	(55,654)	(62,250)
Adjustment to Annual Required Contribution	<u>88,747</u>	<u>88,747</u>	<u>104,877</u>
Annual OPEB Cost	386,125	379,530	417,832
Contributions or Payments Made	<u>(179,568)</u>	<u>(191,089)</u>	<u>(229,213)</u>
Increase in Net OPEB Obligation	206,557	188,441	188,619
Net OPEB Asset, Beginning of Year	<u>(1,401,679)</u>	<u>(1,590,120)</u>	<u>(1,778,739)</u>
Net OPEB Asset, End of Year	<u>\$ (1,195,122)</u>	<u>\$ (1,401,679)</u>	<u>\$ (1,590,120)</u>
Percentage of Annual OPEB Cost Contributed	46.5%	50.3%	54.9%

Funded Status and Funding Progress - The funded status of the Plan as of July 1, 2012, the date of the most recent actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	\$ 4,015,297
Actuarial Value of Assets	<u>1,996,342</u>
Unfunded AAL (UAAL)	<u>\$ 2,018,955</u>
Funded Ratio	49.7%
Covered Payroll	\$ 10,446,090
UAAL as % of Covered Payroll	19.3%

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5% a year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment return on plan assets, and a base payroll growth rate of 3%. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed rate ranges from 8% to 5% for health care

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 30 years.

NOTE 8 CAPITAL LEASE PAYABLE

The District has entered into lease agreements as lessee for financing four buses valued at \$351,261 and one vending machine valued at \$7,695. The estimated life for a bus is 8 years and the estimated life for the vending machine is 15 years. This year, \$38,671 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, 2014, are as follows:

Year Ending June 30	Amount
2015	\$ 70,087
2016	70,087
2017	67,437
2018	17,597
Total Minimum Lease Payments	225,208
Less: Amount Representing Interest	(12,239)
Present Value of Minimum Lease Payments	<u>\$ 212,969</u>

NOTE 9 LONG-TERM LIABILITIES

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

Summary of Long-Term Debt

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Primary Government:					
GO Cap Appr Bonds 2013A	\$	\$ 6,089,458	\$	\$ 6,089,458	\$
GO Taxable OPEB Bond	2,145,000		140,000	2,005,000	140,000
GO Building Bond	47,725,000		1,105,000	46,620,000	1,275,000
Unamortized Discount	(306,167)	(121,789)	(21,380)	(406,576)	(16,262)
Unamortized Premium	159,661		12,285	147,376	
Total Bonds	<u>49,723,494</u>	<u>5,967,669</u>	<u>1,235,905</u>	<u>54,455,258</u>	<u>1,398,738</u>
Energy Service Payable	1,253,390		121,228	1,132,162	126,394
Capital Lease Payable	193,343	83,987	64,361	212,969	64,242
Accrued Interest Payable		210,332		210,332	
Severance Payable	65,236	4,003	25,835	43,404	
Total Long-Term Liabilities	<u>\$ 51,235,463</u>	<u>\$ 6,265,991</u>	<u>\$ 1,447,329</u>	<u>\$ 56,054,125</u>	<u>\$ 1,589,374</u>

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

The District's interest expense for the year ended June 30, 2014, was \$1,799,928.

Accrued interest payable is generally liquidated by the debt service fund and severance payable is generally liquidated by the general fund

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

The TRF EDA's interest expense for the year ended June 30, 2014 was \$257,386. The notes are secured by the project.

A. General Obligation Bonds

<u>Description</u>	<u>Date of Issue</u>	<u>Net Interest Rate</u>	<u>Maturity Dates</u>	<u>Original Amount</u>	<u>Current Year Retired</u>	<u>Balance 6/30/2014</u>
Capital Appreciation Bond	2013	3.5-4.1%	2026/31	\$ 6,089,458	\$	\$ 6,089,458
Taxable OPEB Bond	2009	3.7-5.2%	2015/25	2,410,000	140,000	2,005,000
Building Bond Series A	2012	3.3-5.4%	2027/33	18,615,000		18,615,000
Building Bond Series B	2012	1.0-3.0%	2015/25	21,500,000	160,000	21,175,000
Building Bond Series C	2012	3.0	2015/26	7,775,000	945,000	6,830,000
						<u>\$ 54,714,458</u>

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,415,000	\$ 1,504,781
2016	1,635,000	1,464,581
2017	1,800,000	1,438,181
2018	1,965,000	1,405,650
2019	2,150,000	1,366,015
2020-2024	14,175,000	5,890,423
2025-2029	18,079,978	6,277,819
2030-2033	13,494,480	3,315,720
	<u>\$ 54,714,458</u>	<u>\$ 22,663,170</u>

B. Energy Service Payable

<u>Description</u>	<u>Date of Issue</u>	<u>Net Interest Rate</u>	<u>Maturity Dates</u>	<u>Original Amount</u>	<u>Current Year Retired</u>	<u>Balance 6/30/2014</u>
Energy Service Loan	2006	4.20%	2014/22	\$ 2,036,359	\$ 121,228	\$ 1,132,162

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2015	\$ 126,394	\$ 44,936
2016	131,779	39,551
2017	137,394	33,936
2018	143,248	28,082
2019	149,353	21,977
2020-2022	443,994	27,161
	<u>\$ 1,132,162</u>	<u>\$ 195,643</u>

C. Notes Payable

Component Unit: Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2014
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
2015	\$
2016	
2017	
2018	
2019	400,000
Thereafter	<u>27,400,000</u>
	<u>\$ 27,800,000</u>

NOTE 11 INTERFUND TRANSFERS

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$10,000

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

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, 2014, totaled \$117,429.

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, 2014, the estimated liability under these plans was \$43,404.

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, 2014.

NOTE 16 COMMITTED CONTRACTS

Component Unit – As of June 30, 2014, the Thief River Falls Economic Development Association had construction commitments of \$550,000.

NOTE 17 SUBSEQUENT EVENTS

Primary Government - Subsequent events have been evaluated through October 21, 2014. During the 2014-2015 school year, the District contributed \$380,861 to the TRF EDA for construction costs at the District Service Center.

Component Unit – Subsequent events have been evaluated through October 21, 2014. As of October 21, 2014, the District paid \$380,861 of contracts payable relating to construction in progress. The Company will recognize the payment by the District as a capital contribution in fiscal year 2015.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE 18 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, 2014:

A. Ground Lease

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

B. Lease

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

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

Year Ending June 30		
2015	\$	288,511
2016		294,282
2017		300,166
2018		306,171
2019		312,294
2020-2024		10,831,025
2025-2029		13,629,750
2030-2034		15,048,346
2035-2038		<u>10,605,227</u>
	\$	<u><u>51,615,772</u></u>

NOTE 19 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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

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 20 NEW PRONOUNCEMENTS

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

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, 2014

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Property Tax Levies	\$ 2,064,014	\$ 2,066,173	\$ 1,208,479	\$ (857,694)
Other Local & County Revenues	625,951	661,551	809,752	148,201
Revenue From State Sources	16,028,111	16,250,967	17,406,405	1,155,438
Revenue From Federal Sources	874,060	866,770	996,442	129,672
Sale/Other Conversion of Asset	6,200	6,200	29,335	23,135
TOTAL REVENUES	19,598,336	19,851,661	20,450,413	598,752
EXPENDITURES				
Current				
Administration	1,334,832	1,326,128	1,330,471	4,343
District Support Services	558,079	522,515	493,519	(28,996)
Elementary & Secondary				
Regular Instruction	8,875,371	9,202,606	9,073,410	(129,196)
Vocational Education Instruction	365,510	372,038	363,453	(8,585)
Special Education Instruction	3,174,744	3,066,726	2,982,244	(84,482)
Instructional Support Services	910,063	929,546	1,051,298	121,752
Pupil Support Services	1,378,739	1,390,552	1,514,945	124,393
Sites and Buildings	2,233,505	2,173,097	2,184,775	11,678
Fixed Costs	177,209	177,209	68,513	(108,696)
Debt Service				
Principal	184,239	183,836	183,836	
Interest	54,930	54,930	54,930	
Capital Outlay	694,469	693,369	663,779	(29,590)
TOTAL EXPENDITURES	19,941,690	20,092,552	19,965,173	(127,379)
Revenues Over (Under) Expenditures	(343,354)	(240,891)	485,240	726,131
OTHER FINANCING SOURCES (USES)				
Debt Issued			83,987	83,987
Transfer Out	(13,136)	(13,136)	(10,000)	3,136
TOTAL OTHER FINANCING SOURCES (USES)	(13,136)	(13,136)	73,987	87,123
Net Change in Fund Balances	(356,490)	(254,027)	559,227	813,254
Fund Balances - Beginning	4,963,984	4,963,984	4,963,984	
Fund Balances - Ending	\$ 4,607,494	\$ 4,709,957	\$ 5,523,211	\$ 813,254

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014**

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.

**INDEPENDENT SCHOOL DISTRICT NO. 564
 THIEF RIVER FALLS, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
 June 30, 2014**

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

Schedule of Employer Contributions:

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

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue Funds			Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund	OPEB Debt Service		
ASSETS						
Cash and Investments	\$ 125,608	\$ 238,668	\$ 37,284	\$ 166,237	\$ 32,955	\$ 600,752
Current Property Taxes Receivable		89,189		131,864		221,053
Delinquent Property Taxes Receivable		5,514		6,463		11,977
Accounts Receivable	3,275	5,786				9,061
Due From Department of Education		15,832		747		16,579
Due From Federal Govt. - DOE	10,493	1,236				11,729
Inventory	49,063					49,063
TOTAL ASSETS	\$ 188,439	\$ 356,225	\$ 37,284	\$ 305,311	\$ 32,955	\$ 920,214
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 273	\$ 4,990	\$	\$	\$	\$ 5,263
TOTAL LIABILITIES	273	4,990				5,263
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue - Unearned	5,300	12,110				17,410
Unavailable Revenue - Delinquent Taxes		5,514		6,463		11,977
Property Taxes Levied - Subs. Years		158,373		234,170		392,543
TOTAL DEFERRED INFLOWS OF RESOURCES	5,300	175,997		240,633		421,930
FUND BALANCES						
Fund Balance:						
Nonspendable: Inventory	49,063					49,063
Nonspendable: Scholarships					25,000	25,000
Restricted for Food Service	133,803					133,803
Restricted for School Readiness		19,946				19,946
Restricted for Community Education		115,651				115,651
Restricted for ECFE		17,526				17,526
Restricted for Community Service		22,115				22,115
Restricted for OPEB Debt Service				64,678		64,678
Restricted for Scholarships					7,955	7,955
Restricted for District Programs			37,284			37,284
TOTAL FUND BALANCES	182,866	175,238	37,284	64,678	32,955	493,021
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 188,439	\$ 356,225	\$ 37,284	\$ 305,311	\$ 32,955	\$ 920,214

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, 2014

	Special Revenue Funds			Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund	OPEB Debt Service		
REVENUES						
Local Property Tax Levies	\$	\$ 65,680	\$	\$ 246,014	\$	\$ 311,694
Other Local & County Revenues	5,721	365,626	4,041		37	375,425
Revenue From State Sources	48,126	208,769		7,467		264,362
Revenue From Federal Sources	467,423	4,601				472,024
Sale/Other Conversion of Asset	513,749	4,620				518,369
TOTAL REVENUES	1,035,019	649,296	4,041	253,481	37	1,941,874
EXPENDITURES						
Current						
Elementary & Secondary Regular Instruction			3,200		400	3,600
Community Education and Services		627,948				627,948
Pupil Support Services	1,020,181					1,020,181
Debt Service						
Principal	1,753			140,000		141,753
Interest	898			98,300		99,198
Capital Outlay	8,623	1,092				9,715
TOTAL EXPENDITURES	1,031,455	629,040	3,200	238,300	400	1,902,395
Revenues Over (Under) Expenditures	3,564	20,256	841	15,181	(363)	39,479
OTHER FINANCING SOURCES						
Transfer In		10,000				10,000
TOTAL OTHER FINANCING SOURCES		10,000				10,000
Net Change in Fund Balances	3,564	30,256	841	15,181	(363)	49,479
Fund Balances - Beginning	179,302	144,982	36,443	49,497	33,318	443,542
Fund Balances - Ending	\$ 182,866	\$ 175,238	\$ 37,284	\$ 64,678	\$ 32,955	\$ 493,021

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
For the Year Ended June 30, 2014

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Debt Issued, Net	UFARS Balance End of Year	Reclassify	Financial Statement Balance End of Year
Governmental Funds								
General Fund								
Nondspendable	\$ 110,216	\$	\$	\$ (86,056)	\$	\$ 24,160	\$	\$ 24,160
Restricted for:								
Staff Development		244,960	261,839	16,879				
Health and Safety	(15,844)	334,733	336,451			(17,562)	17,562	
Deferred Maintenance	212,338	138,519	48,419			302,438		302,438
Operating Capital	784,292	592,256	429,248		83,987	1,031,287		1,031,287
Committed: Severance	65,236			(21,832)		43,404		43,404
Assigned for Technology				181,245		181,245		181,245
Unassigned	3,807,746	19,139,945	18,889,216	(100,236)		3,958,239	(17,562)	3,940,677
Food Service Fund								
Nondspendable	35,846			13,217		49,063		49,063
Restricted: Food Service	143,456	1,035,019	1,031,455	(13,217)		133,803		133,803
Community Service Fund								
Restricted for:								
Community Education	92,174	367,342	343,865			115,651		115,651
ECFE	17,166	117,089	116,729			17,526		17,526
School Readiness	16,826	135,078	136,958	5,000		19,946		19,946
Community Service	18,816	29,788	31,489	5,000		22,115		22,115
Capital Project Fund								
Nondspendable				138,568		138,568		138,568
Restricted: Capital Project	7,714,526	15,552	11,386,448	(138,568)	5,967,669	2,172,731		2,172,731
Gifts & Fundraising Fund								
Restricted: District Programs	36,443	4,041	3,200			37,284		37,284
Debt Service Fund								
Restricted: Debt Service	853,652	2,656,970	2,546,756			963,866		963,866
OPEB Debt Service Fund								
Restricted: OPEB Debt Service	49,497	253,481	238,300			64,678		64,678
Permanent Fund								
Nondspendable	25,000					25,000		25,000
Restricted: Scholarships	8,318	37	400			7,955		7,955
Fiduciary Fund								
OPEB Trust Fund								
Held in Trust for OPEB	1,816,085	6,635	187,125			1,635,595		1,635,595

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
GIFTS & FUNDRAISING FUND SCHEDULE
For the Year Ended June 30, 2014

	<u>Fourtown Grygla</u>	<u>Franklin Pop</u>	<u>Lincoln High General</u>	<u>Challenger Playground</u>	<u>Hall of Fame</u>	<u>Total</u>
FUND BALANCE - July 1	\$ 2,169	\$ 504	\$ 4,762	\$ 3,145	\$ 25,863	\$ 36,443
REVENUES						
Interest Earned	3		6	3	29	41
Gifts and Fundraising	<u>2,000</u>		<u>2,000</u>			<u>4,000</u>
TOTAL REVENUES	<u>2,003</u>		<u>2,006</u>	<u>3</u>	<u>29</u>	<u>4,041</u>
EXPENDITURES						
Scholarships			3,200			3,200
Other						
TOTAL EXPENDITURES			<u>3,200</u>			<u>3,200</u>
FUND BALANCE - June 30	<u>\$ 4,172</u>	<u>\$ 504</u>	<u>\$ 3,568</u>	<u>\$ 3,148</u>	<u>\$ 25,892</u>	<u>\$ 37,284</u>



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Independent School District No. 564 as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2014. 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 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 Political Subdivisions*.

Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

Purpose of the Report

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

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

October 21, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of and for the year ended June 30, 2014, 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 21, 2014. 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

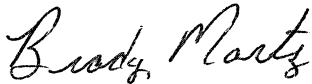
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Districts 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 21, 2014



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED OMB CIRCULAR A-133**

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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

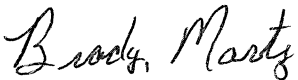
Report on Internal Control Over Compliance

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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

October 21, 2014

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Amount
<u>U.S. Department of Education</u>		
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	\$ 95,254
Title I	84.010	236,170
Special Education - Infants and Toddlers	84.181	2,155
<i>Special Education Cluster:</i>		
IDEA Part B 611	84.027	459,710
Preschool Incentives	84.173	14,574
Discretionary CIMP	84.027	5,000
<i>Total Special Education Cluster</i>		<u>479,284</u>
Passed-Through Pine to Prairie Cooperative:		
Carl Perkins	84.048A	<u>3,786</u>
Passed-Through Warren Alvarado Olso School Districts:		
PEP Grant	84.215F	<u>48,164</u>
Total Indirect		<u>864,813</u>
Total U.S. Department of Education		<u>864,813</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
Child Care Food Program	10.558	4,600
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	75,810
National School Lunch Program	10.555	314,278
After School Snacks	10.555	1,456
Commodity Distribution (Nonmonetary Assistance)	10.555	65,386
Summer Food Program	10.559	10,493
<i>Total Child Nutrition Cluster</i>		<u>467,423</u>
Total U.S. Department of Agriculture		<u>472,023</u>
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Early Retiree Reinsurance Program	93.546	<u>131,630</u>
Total U.S. Department of Health and Human Services		<u>131,630</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,468,466</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, 2014

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 564 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 COMMODITY DISTRIBUTION

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

NOTE 3 PASS-THROUGH ENTITIES

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014**

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 Circular A-133, Section .510(a)? ___ yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	<i>Child Nutrition Cluster:</i>
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	After School Snacks
10.555	Commodity Distribution (Nonmonetary Assistance)
10.559	Summer Food Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

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.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014**

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



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, 2014, and the related note 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

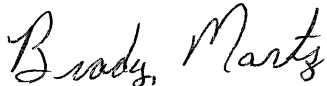
The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded. The financial statement impact cannot be reasonably determined.

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, 2014, 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 21, 2014

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, 2014

	Fund Balance 6-30-13	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-14
<u>Lincoln High School</u>					
Band	\$ 160	\$ 2,721	2,857	402	\$ 426
Baseball Fundraising	11			(11)	
Boys Basketball	3,337	5,392	7,304	187	1,612
Boys Golf	1,079	2,116	2,204	(20)	971
Boys Swimming	646	861	1,101	(20)	386
Class of 2014	13	6,177	5,041	(1,149)	
Class of 2015	3,748	12,202	12,942	109	3,117
Class of 2016	1,781	13,000	9,375	(20)	5,386
Class of 2017		4,593	3,772	324	1,145
Close Up	85	8,335	8,323	(20)	77
Counseling	597	650	774	(20)	453
Community Action Club	180	128	195	172	285
Drama	2,823	3,468	4,726	74	1,639
Envirothon	735			(20)	715
F.F.A.	1,778	13,061	12,564	152	2,427
Football	3,888	23,362	19,013	(80)	8,157
German Club	2,191	22,771	16,084	152	9,030
Girls Basketball Fundraising	1,091	4,245	4,474	52	914
Girls Golf Fundraising	2	5,417	3,316	(1,626)	477
Girls Hockey Fundraising	436	329	746	290	309
Girls Swimming Fundraising	5,042	15,087	10,255	132	10,006
Girls Tennis	996	1,295	3,363	1,396	324
Interest	34	38			72
Math Counts	175		131	152	196
Math League	422	196	57	324	885
Miles Club	1	4,222	3,691	(20)	512
Multicultural Student Services	76			(20)	56
National Honor Society	2,647	2,292	2,208	(20)	2,711
Orchestra	1,001	770	1,687	324	408
PE	253		60	(20)	173
Prowler Advertising	200	2,913	1,315	3,168	4,966
Prowler Potential	280	3,259	3,337	631	833
Retail Lab	800	24,200	19,623	(4,799)	578
Robotics	295	752	1,042	152	157
Science Fair	1,343	4,215	4,554	496	1,500
Softball Fundraising				324	324
Special Education Fundraising	113			(20)	93
Special Student Activities	533	1,000	588	(20)	925
Speech	1,151	1,750	1,316	(20)	1,565
Student Activities	993		576	(120)	297
Student Senate	266	805	673	(20)	378
Tennis Fundraising	598	3,510	1,786	(920)	1,402
Track Fundraising	1,743		1,438	(20)	285

The note to 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, 2014

	Fund Balance 6-30-13	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-14
<u>Lincoln High School (Continued)</u>					
Weight Room	5,005	1,264	4,526	(20)	1,723
Wrestling Fundraising	874		581	52	345
Volleyball	1,374	4,551	3,473	(20)	2,432
Yearbook	4,327	12,074	14,554	(20)	1,827
Total Lincoln High School	55,123	213,021	195,645		72,499
<u>Franklin Middle School</u>					
Activity Day	2,727	3,942	3,545		3,124
Sixth Grade Book Fair	7	2,671	4,076	1,405	7
Class of 2017	572		572		
Class of 2018	1,768	2,120	5,718	2,500	670
Class of 2019	221	9,080	6,198	2,095	5,198
Class of 2020		33,979	27,158	1,250	8,071
Student Basketball	1,796				1,796
Geckler	51	33,019	20,606	(8,750)	3,714
Jazz Band	(1,548)	23,941	22,256		137
Prowler Plus	11,092	380	1,307	(1,100)	9,065
School Store	14,161	5,188	5,150		14,199
Science Fair	494	176	150		520
Student Council	541	1,320	2,750	1,100	211
Sunrise Singers	350		333		17
Turn Around	564	8,660	7,463	1,500	3,261
Yearbook	3,835	2,884	5,509		1,210
Total Franklin Middle School	36,631	127,360	112,791		51,200
<u>Challenger Elementary School</u>					
Book Project	32				32
Deep Portage	11,018	64,547	57,263		18,302
Student Community Account	3,763	3,846	2,759		4,850
Kindergarten Parties	444	550	304		690
Destination Imagination	118				118
Kids in Need	457				457
Readathon	459	349	235		573
PE Activities	165	2,893	2,650		408
School Store	4,110	3,169	3,648		3,631
Science	921				921
Total Challenger Elementary School	21,487	75,354	66,859		29,982
Total All Funds	\$ 113,241	\$ 415,735	\$ 375,295	\$	\$ 153,681

The note to 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, 2014**

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.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE

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

We have audited in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the extracurricular student accounts of Independent School District No. 564, for the year ended June 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated October 21, 2014, 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, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District’s noncompliance with the above referenced provisions.

Purpose of the Report

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

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

October 21, 2014

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2014

District Name: INDEPENDENT SCHOOL DISTRICT NO. 564

District Number: 564

	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	20,450,413	20,450,416	(3)	Total Revenue	15,552	15,552	
Total Expenditures	19,965,173	19,965,173		Total Expenditures	11,386,448	11,386,448	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	24,160	24,160		460 Non Spendable Fund Balance	138,568	138,568	
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development				407 Capital Projects Levy			
405 Deferred Maintenance	302,438	302,438		409 Alternative Facility Program			
406 Health & Safety		(17,563)	17,563	413 Projects Funded By COP			
407 Capital Projects Levy				<i>Restricted</i>			
408 Cooperative Revenue				464 Restricted Fund Balance	2,172,731	2,172,730	1
414 Operating Debt				<i>Unassigned:</i>			
416 Levy Reduction				463 Unassigned Fund Balance			
417 Taconite Building Maintenance				Reconciliation of Building Construction	<u>13,713,299</u>	<u>13,713,298</u>	<u>1</u>
423 Certain Teacher Programs				07 DEBT SERVICE			
424 Operating Capital	1,031,287	1,031,288	(1)	Total Revenue	2,656,970	2,656,971	(1)
426 \$25 Taconite				Total Expenditures	2,546,756	2,546,756	
427 Disabled Accessibility				<i>Non Spendable</i>			
428 Learning & Development				460 Non Spendable Fund Balance			
434 Area Learning Center				<i>Restricted/Reserved:</i>			
435 Contracted Alt Programs				425 Bond Refundings			
436 State Approved Alt Program				451 QZAB Payments			
438 Gifted & Talented				<i>Restricted</i>			
441 Basic Skills Programs				464 Restricted Fund Balance	963,866	963,867	(1)
445 Career and Technical Programs				<i>Unassigned:</i>			
449 Safe Schools Levy				463 Unassigned Fund Balance			
450 Prekindergarten				Reconciliation of Debt Service	<u>6,167,592</u>	<u>6,167,594</u>	<u>(2)</u>
451 QZAB Payments				08 TRUST			
452 OPEB Liab Not In Trust				Total Revenue	4,078	4,078	
453 Unfunded Sev & Retirement Levy				Total Expenditures	3,600	3,600	
<i>Restricted</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance				422 Unassigned Fund Balance	<u>70,239</u>	<u>70,239</u>	
<i>Committed</i>				Reconciliation of Trust	<u>77,917</u>	<u>77,917</u>	
418 Committed for Separation	43,404	43,404		20 INTERNAL SERVICE			
461 Committed				Total Revenue			
<i>Assigned</i>				Total Expenditures			
462 Assigned Fund Balance	181,245	181,245		<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Unassigned Fund Balance			
422 Unassigned Fund Balance	<u>3,940,677</u>	<u>3,958,239</u>	<u>(17,562)</u>	Reconciliation of Internal Service			
Reconciliation of General	<u>45,938,797</u>	<u>45,938,800</u>	<u>(3)</u>	25 OPEB REVOCABLE TRUST FUND			
02 FOOD SERVICE				Total Revenue			
Total Revenue	1,035,019	1,035,019		Total Expenditures			
Total Expenditures	1,031,455	1,031,455		<i>Unassigned:</i>			
<i>Non Spendable</i>				422 Unassigned Fund Balance			
460 Non Spendable Fund Balance	49,063	49,063		Reconciliation of OPEB Revocable Trust			
<i>Restricted/Reserved:</i>				45 OPEB IRREVOCABLE TRUST FUND			
452 OPEB Liab Not In Trust				Total Revenue	6,635	6,635	
<i>Restricted</i>				Total Expenditures	187,125	187,125	
464 Restricted Fund Balance	133,803	133,800	3	<i>Unassigned:</i>			
<i>Unassigned</i>				422 Unassigned Fund Balance	<u>1,635,595</u>	<u>1,635,595</u>	
463 Unassigned Fund Balance				Reconciliation of OPEB Irrevocable Trust	<u>1,829,355</u>	<u>1,829,355</u>	
Reconciliation of Food Service	<u>2,249,340</u>	<u>2,249,337</u>	<u>3</u>	47 OPEB DEBT SERVICE FUND			
04 COMMUNITY SERVICE				Total Revenue	253,481	253,481	
Total Revenue	649,296	649,297	(1)	Total Expenditures	238,300	238,300	
Total Expenditures	629,040	629,041	(1)	<i>Non Spendable</i>			
<i>Non Spendable</i>				460 Non Spendable Fund Balance			
460 Non Spendable Fund Balance				<i>Restricted</i>			
<i>Restricted/Reserved:</i>				425 Bond Refunding			
426 \$25 Taconite				464 Restricted Fund Balance	64,678	64,678	
431 Community Education	115,651	115,652	(1)	<i>Unassigned</i>			
432 E.C.F.E.	17,526	17,528	(2)	463 Unassigned Fund Balance			
444 School Readiness	19,946	19,944	2	Reconciliation of OPEB Debt Service	<u>556,459</u>	<u>556,459</u>	
447 Adult Basic Education				04 COMMUNITY SERVICE			
452 OPEB Liab Not In Trust				Total Revenue	649,296	649,297	(1)
<i>Restricted</i>				Total Expenditures	629,040	629,041	(1)
464 Restricted Fund Balance	22,115	22,118	(3)	<i>Non Spendable</i>			
<i>Unassigned</i>				460 Non Spendable Fund Balance			
463 Unassigned Fund Balance				<i>Restricted/Reserved:</i>			
Reconciliation of Community Service	<u>1,453,574</u>	<u>1,453,580</u>	<u>(6)</u>	426 \$25 Taconite			
				431 Community Education	115,651	115,652	(1)
				432 E.C.F.E.	17,526	17,528	(2)
				444 School Readiness	19,946	19,944	2
				447 Adult Basic Education			
				452 OPEB Liab Not In Trust			
				<i>Restricted</i>			
				464 Restricted Fund Balance	22,115	22,118	(3)
				<i>Unassigned</i>			
				463 Unassigned Fund Balance			
				Reconciliation of Community Service	<u>1,453,574</u>	<u>1,453,580</u>	<u>(6)</u>