

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

**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	21-48
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule for the General Fund.....	49
Schedule of Changes in the District’s Net OPEB Liability and Related Ratios	50
Schedule of District Contributions.....	51
Schedule of District’s Share of Net Pension Liability	52
Note to Required Supplementary Information	53-54
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Nonmajor Governmental Funds.....	55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	56

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

	<u>Pages</u>
Schedule of Changes in Fund Balances and Net Position	57
Gifts & Fundraising Fund Schedule	58
Independent Auditor's Report on Minnesota Legal Compliance.....	59
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>	60-61
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	62-63
Schedule of Expenditures of Federal Awards.....	64
Notes to the Schedule of Expenditures of Federal Awards	65
Schedule of Findings and Questioned Costs.....	66-67
Corrective Action Plan	68
OTHER INFORMATION	
Independent Auditor's Report on the Statement of Cash Receipts and Disbursements of the Student Activity Accounts	69-70
Statement of Cash Receipts and Disbursements of the Student Activity Accounts	71-72
Note to Student Activity Accounts Financial Statement.....	73
Independent Auditor's Report on Compliance	74
Schedule of Findings – Student Activity Accounts.....	75
Corrective Action Plan – Student Activity Accounts.....	76
SUPPLEMENTARY INFORMATION	
Uniform Financial Accounting and Reporting Standards Compliance Table	77

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2018**

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



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We did not audit the financial statements of the discretely presented component unit; those statements were audited by other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Thief River Falls Economic Development Association, LLC (TRF EDA), which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for TRF EDA, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the TRF EDA were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of June 30, 2018, 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, notes to required supplementary information, and schedules as listed in the table of contents as required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

October 2, 2018

This page intentionally left blank

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

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, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

For the year ending June 30, 2018, the District's unassigned fund balance increased from \$3,468,433 to \$3,665,229 or an increase of \$196,796.

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, 2018**

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 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.

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was \$(20,155,391) on June 30, 2018 (see details in Table A-1). This was a decrease of 47.7 percent from the prior year. This significant decrease is due to amortization of prior year deferred outflows related to TRA and PERA.

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

	<u>2018</u>	<u>2017</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 44,869,540	\$ 44,313,153	1.3 %
Capital Assets	<u>40,847,490</u>	<u>42,216,292</u>	(3.2)
Total Assets	<u>85,717,030</u>	<u>86,529,445</u>	(0.9)
Deferred Outflows of Resources	<u>21,823,925</u>	<u>29,556,247</u>	(26.2)
Long-term Liabilities	100,720,216	111,169,190	(9.4)
Other Liabilities	<u>3,600,973</u>	<u>3,529,213</u>	2.0
Total Liabilities	<u>104,321,189</u>	<u>114,698,403</u>	(9.0)
Deferred Inflows of Resources	<u>23,375,157</u>	<u>15,029,293</u>	55.5
Net Position			
Net Investment in Capital Assets	12,768,099	12,550,115	1.7
Restricted	1,877,054	1,761,153	6.6
Unrestricted	<u>(34,800,544)</u>	<u>(27,953,272)</u>	(24.5)
Total Net Position	<u>\$ (20,155,391)</u>	<u>\$ (13,642,004)</u>	(47.7) %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

Change in Net Position

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

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

	<u>2018</u>	<u>2017</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 1,336,649	\$ 1,424,690	(6.2) %
Operating Grants and Contributions	5,082,893	5,690,491	(10.7)
Capital Grants and Contributions	617,612	507,967	21.6
General Revenues			
Property Taxes	5,795,945	5,792,916	0.1
Unrestricted State Aid	14,498,485	14,495,870	0.0
Other Sources	513,912	414,633	23.9
Total Revenues	<u>27,845,496</u>	<u>28,326,567</u>	(1.7)
Expenses			
Administration	1,521,502	2,019,184	(24.6)
District Support Services	544,731	608,512	(10.5)
Elementary & Secondary Regular Instruction	14,773,092	13,754,140	7.4
Vocational Education Instruction	508,469	662,697	(23.3)
Special Education Instruction	3,527,698	4,370,558	(19.3)
Community Education and Services	812,697	1,003,460	(19.0)
Instructional Support Services	1,262,776	1,681,797	(24.9)
Pupil Support Services	2,917,821	2,983,373	(2.2)
Sites and Buildings	5,890,450	5,894,530	(0.1)
Fixed Costs	82,820	445,001	(81.4)
Interest on Long-Term Debt	2,057,389	1,967,921	4.5
Depreciation - Unallocated	459,438	460,973	(0.3)
Total Expenses	<u>34,358,883</u>	<u>35,852,146</u>	(4.2)
Change in Net Position	(6,513,387)	(7,525,579)	13.5
Net Position - Beginning	<u>(13,642,004)</u>	<u>(6,116,425)</u>	123.0
Net Position - Ending	<u>\$ (20,155,391)</u>	<u>\$ (13,642,004)</u>	47.7 %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

The District's total revenues were \$27,845,496 for the year ended June 30, 2018. 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 \$34,358,883. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position \$6,513,387 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)
	2018	2017		
Governmental Funds				
General	\$ 6,339,322	\$ 5,875,126	\$ 464,196	7.9 %
Debt Service Fund	9,964,453	10,325,113	(360,660)	(3.5)

The General Fund Balance increased due to increased revenues and reduced expenditures in comparison to their budgets. On the revenue side, the District had increases in state aid, specifically in the areas of general education aid and special education aid in comparison to the budget. The General Fund revenue actual amounts also exceeded revenues in many local revenue areas such as interest earnings, tuition and rebates. General Fund expenditures also were significantly lower than budgeted in several areas such as technology, buildings and grounds, transportation, tuition and professional services.

The Debt Service Fund Balance decreased due to excess fund balance calculations and valuation decreases in the bond escrow account.

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.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

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

**Table A-4
General Fund Revenue**

	<u>2018</u>	<u>2017</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Local Sources				
Property Taxes	\$ 2,365,490	\$ 2,460,595	\$ (95,105)	(3.9) %
Interest Earnings	60,680	26,008	34,672	133.3
Other	780,015	813,504	(33,489)	(4.1)
State Sources	18,364,000	18,228,453	135,547	0.7
Federal Sources	801,606	852,396	(50,790)	(6.0)
Other	3,387	13,627	(10,240)	(75.1)
Total General Fund Revenue	<u>\$ 22,375,178</u>	<u>\$ 22,394,583</u>	<u>\$ (19,405)</u>	(0.1) %

Total general fund revenue decreased by \$19,405 or 0.1 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.

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

**Table A-5
General Fund Expenditures**

	<u>2018</u>	<u>2017</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 14,151,253	\$ 14,034,190	\$ 117,063	0.8 %
Employee Benefits	3,576,678	3,586,710	(10,032)	(0.3)
Purchased Services	1,741,946	1,783,302	(41,356)	(2.3)
Supplies and Materials	1,060,083	1,104,398	(44,315)	(4.0)
Capital Expenditures	837,663	919,800	(82,137)	(8.9)
Debt Service	352,677	381,672	(28,995)	(7.6)
Other Expenditures	262,962	239,214	23,748	9.9
Total General Fund Expenditures	<u>\$ 21,983,262</u>	<u>\$ 22,049,286</u>	<u>\$ (66,024)</u>	(0.3) %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

General Fund Budgetary Highlights

During the year the District revised its budget twice.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$805,879. The actual results for the year show a surplus of \$464,196.

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

Capital Assets and Debt Administration

Capital Assets

Note 5 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2018. Additions totaling \$748,025 consisted of building improvements, site improvements, kitchen equipment, and a bus. Disposals totaling \$131,101 consisted of two buses.

Long-Term Debt

At year-end, the District had \$61,232,786 of long-term debt. This consisted of bonded indebtedness net of premiums and discounts of \$59,000,333, energy service payable of \$593,347, capital lease payable of \$365,759, accrued interest payable of \$1,219,921, and severance payable of \$53,426. Note 9 to the financial statements present details and payment provisions of these items.

Factors Bearing on the District's Future

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

- Results of future labor contract negotiations will affect expenditure levels. Salaries and benefits account for 80% of general fund expenditures.
- The District receives 81% of its revenue from state sources. The District is significantly impacted by the results of the financial health of the State of Minnesota. School Districts have been fortunate the past several years to receive additional increases in the general education funding formula from the State. These increases, however, have not increased at the same rate as inflation.

Contacting the District's Financial Management

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2018

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
ASSETS		
Cash and Investments	\$ 8,930,090	\$ 18,606
Investment with Fiscal Agent	10,480,081	
Restricted Cash		214,345
Property Taxes Receivable, Net of Allowance	2,798,923	
Accounts Receivable	160,502	
Due From MN School Districts	23,937	
Due From Department of Education	2,195,985	
Due From Federal Govt. - DOE	66,952	
Prepaid Expenses	156,199	
Inventory	46,477	
Note Receivable - USBCDC	20,010,394	
Capital Assets		
Land, Construction in Process	787,532	
Other Capital Assets, Net of Depreciation	40,059,958	22,415,229
TOTAL ASSETS	<u>85,717,030</u>	<u>22,648,180</u>
DEFERRED OUTFLOWS OF RESOURCES		
Accrued Revenue		10,302,127
Cost Sharing Defined Benefit Pension Plan	21,812,124	
Other Postemployment Benefit Plan	11,801	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>21,823,925</u>	<u>10,302,127</u>
LIABILITIES		
Accounts Payable	150,005	
Accrued Expenses		10,030
Due To Other MN School Districts	35,930	
Due To Other Governmental Units	2,112	
Payroll Deductions	199,857	
Interest Payable	675,331	
Vacation Payable	98,614	
Long-Term Liabilities Due Within One Year	2,439,124	
Long-Term Liabilities		
Bonds, Net Unamortized Premiums (Discounts)	59,000,333	
Capital Lease Payable	365,759	
Energy Service Payable	593,347	
Notes Payable - MMCDC, Net		18,546,022
Notes Payable - USBCDE, Net		8,872,580
Interest Payable	1,219,921	
Severance Payable	53,426	
Net Pension Liability	39,952,855	
Net Other Postemployment Benefit Liability	1,973,699	
Less Amounts Due Within One Year	(2,439,124)	
Total Long-Term Liabilities	<u>100,720,216</u>	<u>27,418,602</u>
TOTAL LIABILITIES	<u>104,321,189</u>	<u>27,428,632</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, 2018

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Rent Payable	10,302,127	
Property Taxes Levied - Subs. Years	6,176,350	
Cost Sharing Defined Benefit Pension Plan	6,840,338	
Other Postemployment Benefit Plan	56,342	
	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	23,375,157	
	<hr/>	<hr/>
NET POSITION		
Net Investment in Capital Assets	12,768,099	
Restricted for:		
Health & Safety	15,042	
Operating Capital	892,502	
Long Term Facility Maintenance	175,484	
Medical Assistance	52,843	
Food Service	401,717	
School Readiness	24,059	
Community Education	84,580	
ECFE	40,507	
Community Service	23,234	
Capital Project	78,389	
OPEB Debt Service	26,190	
District Programs	30,007	
Permanent Fund - Non Expendable	25,000	
Permanent Fund - Expendable	7,500	
Unrestricted	(34,800,544)	
Member's Equity		5,521,675
	<hr/>	<hr/>
TOTAL NET POSITION	\$ (20,155,391)	\$ 5,521,675
	<hr/> <hr/>	<hr/> <hr/>

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

This page intentionally left blank

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

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	\$ 1,521,502	\$	\$	\$ 2,325	\$ (1,519,177)	\$
District Support Services	544,731			2,630	(542,101)	
Elementary & Secondary						
Regular Instruction	14,773,092	263,104	1,623,904	118,934	(12,767,150)	
Vocational Education Instruction	508,469	349	33,543	5,625	(468,952)	
Special Education Instruction	3,527,698	17,159	2,116,383		(1,394,156)	
Community Education and Services	812,697	419,310	204,618		(188,769)	
Instructional Support Services	1,262,776	49,058	337,656	20,140	(855,922)	
Pupil Support Services	2,917,821	574,781	747,114	105,525	(1,490,401)	
Sites and Buildings	5,890,450	12,888	19,675	362,433	(5,495,454)	
Fixed Costs	82,820				(82,820)	
Interest on Long-Term Debt	2,057,389				(2,057,389)	
Depreciation - Unallocated	459,438				(459,438)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 34,358,883	\$ 1,336,649	\$ 5,082,893	\$ 617,612	(27,321,729)	
COMPONENT UNIT:						
TRF EDA	\$ 1,181,923	\$ 2,084,545	\$	\$		902,622
GENERAL REVENUES						
Taxes						
Property Taxes, Levied for General Purposes					2,357,390	
Property Taxes, Levied for Community Education and Services					158,461	
Property Taxes, Levied for Debt Services					3,052,914	
Property Taxes, Levied for OPEB Debt Services					227,180	
Unrestricted State Aid					14,498,485	
Unrestricted Investment Earnings					100,520	31
Gain on Sale of Capital Asset					1,776	
Other General Revenue					411,616	
TOTAL GENERAL REVENUES					20,808,342	31
Change in Net Position					(6,513,387)	902,653
Equity Distributions						(30,000)
Net Position - Beginning					(13,642,004)	4,649,022
Net Position - Ending					\$ (20,155,391)	\$ 5,521,675

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, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 5,628,640	\$ 2,457,821	\$ 843,629	\$ 8,930,090
Investment with Fiscal Agent		9,249,601	1,230,480	10,480,081
Current Property Taxes Receivable	1,107,453	1,532,776	168,135	2,808,364
Delinquent Property Taxes Receivable	7,611	71,121	13,827	92,559
Accounts Receivable	133,307		27,195	160,502
Due From MN School Districts	23,937			23,937
Due From Department of Education	2,163,329	10,082	22,574	2,195,985
Due From Federal Govt. - DOE	39,284		27,668	66,952
Prepaid Expenses	77,810		78,389	156,199
Inventory			46,477	46,477
TOTAL ASSETS	\$ 9,181,371	\$ 13,321,401	\$ 2,458,374	\$ 24,961,146
LIABILITIES				
Accounts Payable	\$ 146,913		\$ 3,092	\$ 150,005
Due To Other MN School Districts	35,930			35,930
Due To Other Governmental Units	2,112			2,112
Payroll Deductions	164,208		35,649	199,857
TOTAL LIABILITIES	349,163		38,741	387,904
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	7,611	71,121	13,827	92,559
Property Taxes Levied - Subs. Years	2,485,275	3,285,827	405,248	6,176,350
TOTAL DEFERRED INFLOWS OF RESOURCES	2,492,886	3,356,948	419,075	6,268,909
FUND BALANCES				
Fund Balance:				
Nonspendable: Prepaid	77,810		78,389	156,199
Nonspendable: Inventory			46,477	46,477
Nonspendable: Scholarships			25,000	25,000
Restricted for Health & Safety	15,042			15,042
Restricted for Operating Capital	892,502			892,502
Restricted for Long Term Facility Maintenance	175,484			175,484
Restricted for Food Service			355,240	355,240
Restricted for School Readiness			24,059	24,059
Restricted for Community Education			84,580	84,580
Restricted for ECFE			40,507	40,507
Restricted for Community Service			23,234	23,234
Restricted for Bond Refunding		9,249,601	1,230,480	10,480,081
Restricted for OPEB Debt Service			55,085	55,085
Restricted for Debt Service		714,852		714,852
Restricted for Scholarships			7,500	7,500
Restricted for District Programs			30,007	30,007
Restricted for Medical Assistance	52,843			52,843
Committed for Severance	53,426			53,426
Assigned for Technology	1,362,239			1,362,239
Assigned for Building Trades	44,747			44,747
Unassigned	3,665,229			3,665,229
TOTAL FUND BALANCES	6,339,322	9,964,453	2,000,558	18,304,333
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 9,181,371	\$ 13,321,401	\$ 2,458,374	\$ 24,961,146

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, 2018

Total fund balances - governmental funds \$ 18,304,333

Amounts reported for governmental activities in the statement of net 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	66,444,208
Less accumulated depreciation	(25,596,718)

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

21,823,925

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	(59,164,458)
Capital lease payable	(365,759)
Energy service payable	(593,347)
Unamortized premiums (discounts)	164,125
Severance payable	(53,426)
Net Pension Liability	(39,952,855)
Net other postemployment benefit liability	(1,973,699)

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

(6,896,680)

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

(98,614)

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.

92,559

An allowance has been set up for taxes receivable in the government-wide financial statements.

(102,000)

Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.

(1,895,252)

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

(10,302,127)

Net position - governmental activities

\$ (20,155,391)

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, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	\$ 2,365,490	\$ 3,052,122	\$ 385,682	\$ 5,803,294
Other Local & County Revenues	840,695	22,661	467,168	1,330,524
Revenue From State Sources	18,364,000	100,818	279,249	18,744,067
Revenue From Federal Sources	801,606		608,947	1,410,553
Sale/Other Conversion of Asset	3,387		565,478	568,865
TOTAL REVENUES	<u>22,375,178</u>	<u>3,175,601</u>	<u>2,306,524</u>	<u>27,857,303</u>
EXPENDITURES				
Current				
Administration	1,532,400			1,532,400
District Support Services	540,213			540,213
Elementary & Secondary				
Regular Instruction	9,371,314			9,371,314
Vocational Education Instruction	529,605			529,605
Special Education Instruction	3,527,698			3,527,698
Community Education and Services			812,620	812,620
Instructional Support Services	1,224,018			1,224,018
Pupil Support Services	1,464,501		1,130,164	2,594,665
Sites and Buildings	2,520,353			2,520,353
Fixed Costs	82,820			82,820
Debt Service				
Principal	312,939	1,805,000	160,000	2,277,939
Interest and Other Fees	39,738	1,731,261	107,574	1,878,573
Capital Outlay	837,663		132,513	970,176
TOTAL EXPENDITURES	<u>21,983,262</u>	<u>3,536,261</u>	<u>2,342,871</u>	<u>27,862,394</u>
Revenues Over (Under) Expenditures	391,916	(360,660)	(36,347)	(5,091)
OTHER FINANCING SOURCES (USES)				
Debt Issued	98,504			98,504
Sale of Fixed Assets	1,776			1,776
Transfers In			28,000	28,000
Transfers Out	(28,000)			(28,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>72,280</u>		<u>28,000</u>	<u>100,280</u>
Net Change in Fund Balances	464,196	(360,660)	(8,347)	95,189
Fund Balances - Beginning	5,875,126	10,325,113	2,008,905	18,209,144
Fund Balances - Ending	<u>\$ 6,339,322</u>	<u>\$ 9,964,453</u>	<u>\$ 2,000,558</u>	<u>\$ 18,304,333</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Total net change in fund balances - governmental funds	\$ 95,189
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	748,025
Depreciation expense	(2,116,827)
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	2,277,938
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.	(98,504)
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.	(178,816)
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.	(1,778,374)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(7,350)
Change in net pension liability	8,409,318
Change in deferred outflows and inflows of resources related to net pension liability	(13,766,906)
Changes in deferred outflows and inflows of resources related to other postemployment benefit liability.	(49,778)
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.	
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	
Vacation payable	7,639
Other postemployment benefits	(49,095)
Severance payable	<u>(5,846)</u>
Change in net position - governmental activities	<u>\$ (6,513,387)</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, 2018**

	<u>OPEB Trust Fund</u>
ASSETS	
Investments	\$ <u>1,258,725</u>
TOTAL ASSETS	<u>1,258,725</u>
NET POSITION	
Held in Trust for OPEB	\$ <u><u>1,258,725</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, 2018

	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	\$ <u>7,648</u>
TOTAL ADDITIONS	<u>7,648</u>
DEDUCTIONS	
Benefits	<u>113,486</u>
TOTAL DEDUCTIONS	<u>113,486</u>
Change in Net Position	(105,838)
Net Position Held in Trust for OPEB - Beginning	<u>1,364,563</u>
Net Position Held in Trust for OPEB - Ending	<u>\$ 1,258,725</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, 2018

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, 2018**

D. Basic Financial Statement Presentation

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

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

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

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

Description of Funds

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

Major Governmental Funds

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

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

Nonmajor Governmental Funds

Special Revenue Funds:

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

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

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

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

Debt Service Funds:

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

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

Fiduciary Fund

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

F. Specific Account Information

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

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

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

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

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

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

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

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

Taxes Receivable – Taxes receivable represents taxes levied in 2017 which are not payable until 2018, net of the amount received prior to June 30.

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

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

Accounts Receivable – Accounts receivable is carried at invoice amount less an estimate made for uncollectible accounts. The allowance for uncollectible accounts receivable was zero based on historical performance. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

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

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

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

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.

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

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

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/ expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date. In addition, the TRF EDA also has one item that will be recognized as a deferred outflow of resource, which arises from rental revenue that is recognized using the straight line basis.

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

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.

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

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

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

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

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

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

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

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, 2018, was \$108,560.

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

	Governmental Activities	Fiduciary Fund	Total
Cash	\$ 280,893	\$	\$ 280,893
Investments	19,129,278	1,258,725	20,388,003
Total	<u>\$ 19,410,171</u>	<u>\$ 1,258,725</u>	<u>\$ 20,668,896</u>

As of June 30, 2018, the District had the following investments:

Investments	Maturities	Fair Value (Level 1)
US Treasury State & Local	7/20/2018	\$ 43,983
US Treasury State & Local	7/31/2018	3,999
US Treasury State & Local	1/28/2019	1,225,926
US Treasury State & Local	1/28/2019	42,788
US Treasury State & Local	6/21/2019	44,454
US Treasury State & Local	1/21/2020	43,413
US Treasury State & Local	7/31/2020	43,507
US Treasury State & Local	12/28/2020	45,151
US Treasury State & Local	7/14/2021	43,061
US Treasury State & Local	1/31/2022	8,942,027
Total Investments (By Fair Value)		<u>10,478,309</u>
Minnesota School District Liquid Asset Fund	N/A	77,958
Mn Trust	N/A	9,829,964
US Bank	N/A	1,772
Total Investments		<u>\$ 20,388,003</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

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 AAAM by Standard & Poor's, while the MnTrust is rated Aaa by Moody's Investors Services.

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

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2018, 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.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 3 RESTRICTED CASH – COMPONENT UNIT

As of June 30, 2018, the Thief River Falls Economic Development Association's restricted cash consisted of the following:

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

Audit and Tax Fee Reserve	\$	9,215
Operating Reserves		12,000
MMCDC Reserves		154,022
USBCDC Reserves		<u>39,108</u>
	\$	<u>214,345</u>

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, 2018**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 780,844	\$	\$	\$ 780,844
Construction in Progress	249,193	6,688	249,193	6,688
Total Capital Assets, Not Being Depreciated	<u>1,030,037</u>	<u>6,688</u>	<u>249,193</u>	<u>787,532</u>
Capital Assets, Being Depreciated:				
Land Improvements	1,263,512	40,602		1,304,114
Buildings	58,868,600	741,952		59,610,552
Equipment	4,665,135	207,976	131,101	4,742,010
Total Capital Assets, Being Depreciated	<u>64,797,247</u>	<u>990,530</u>	<u>131,101</u>	<u>65,656,676</u>
Less Accumulated Depreciation For:				
Land Improvements	799,528	32,981		832,509
Buildings	19,538,162	1,843,258		21,381,420
Equipment	3,273,302	240,588	131,101	3,382,789
Total Accumulated Depreciation	<u>23,610,992</u>	<u>2,116,827</u>	<u>131,101</u>	<u>25,596,718</u>
Total Capital Assets, Being Depreciated, Net	<u>41,186,255</u>	<u>(1,126,297)</u>		<u>40,059,958</u>
Governmental Activities Capital Assets, Net	<u>\$ 42,216,292</u>	<u>\$ (1,119,609)</u>	<u>\$ 249,193</u>	<u>\$ 40,847,490</u>

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

Elementary & Secondary Regular Instruction	\$ 18,826
Vocational Education Instruction	4,067
Pupil Support Services	183,180
Sites and Buildings	<u>1,451,316</u>
	1,657,389
Unallocated	459,438
Total Depreciation Expense	<u>\$ 2,116,827</u>

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

Changes in capital assets for the discretely presented component unit for the period ended June 30, 2018 was as follows:

Component Unit:	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Building	\$ 25,277,124	\$	\$	\$ 25,277,124
Equipment	160,343			160,343
Total Capital Assets, Being Depreciated	<u>25,437,467</u>			<u>25,437,467</u>
Less Accumulated Depreciation:	<u>2,358,241</u>	<u>663,997</u>		<u>3,022,238</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 23,079,226</u>	<u>\$ (663,997)</u>	<u>\$</u>	<u>\$ 22,415,229</u>

NOTE 6 DEFINED BENEFIT PENSION PLANS- STATEWIDE

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

Disclosures relating to these plans follow:

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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

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

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested Terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018. The District was required to contribute 7.50% for Coordinated Plan members. The District’s contributions to the General Employees Fund for the year ended June 30, 2018, were \$346,292. The District’s contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2018, the District reported a liability of \$4,500,673 for its proportionate share of the General Employees Fund’s net pension liability. The District’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$6,000,000 to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the District totaled \$56,557. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2017, the District’s proportion was 0.0705% which was an increase of 0.0013% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$579,340 for its proportionate share of the General Employees Plan’s pension expense. In addition, the District recognized an additional \$1,633 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$6,000,000 to the General Employees Fund.

At June 30, 2018, the District reported its proportionate share of General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 148,328	\$ 283,764
Difference between projected and actual investment earnings		210,491
Changes in actuarial assumptions	733,431	451,191
Changes in proportion	73,286	21,138
Contributions paid to PERA subsequent to the measurement date	346,292	
Total	<u>\$ 1,301,337</u>	<u>\$ 966,584</u>

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

\$346,292 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ (27,976)
2020	276,706
2021	(69,226)
2022	(191,043)

Actuarial Assumptions – The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
\$ 6,980,879	\$ 4,500,673	\$ 2,470,175

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

B. TEACHERS RETIREMENT ASSOCIATION

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Tier I Benefits:

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

With these provisions:

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

or

Tier II Benefits:

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

Contribution Rate – Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2016, June 30, 2017, and June 30, 2018, were:

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

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

Employer contributions reported in TRA's CAFR	<i>in thousands</i>
Statement of Changes in Fiduciary Net Position	\$ 367,791
Deduct employer contributions not related to future contribution efforts	810
Deduct TRA's contributions not included in allocation	<u>(456)</u>
Total employer contributions	368,145
Total non-employer contributions	<u>35,588</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$ 403,733</u>

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

Actuarial Assumptions – The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2017
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	5.12%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.50%
Wage Growth Rate	2.85% for 10 years and 3.25% thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25 – 9.25% thereafter
Cost of Living Adjustment	2.0%

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

Mortality Assumption

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

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

Discount Rate - The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

Net Pension Liability - On June 30, 2018, the District reported a liability of \$35,452,182 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1776% at the end of the measurement period and 0.1792% for the beginning of the year.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

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

District's proportionate share of net pension liability	\$	35,452,182
State's proportionate share of the net pension liability associated with the District	\$	3,427,611

For the year ended June 30, 2018, the District recognized pension expense of \$6,061,105. It also recognized \$65,739 as an increase to pension expense for the support provided by direct aid.

On June 30, 2018, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 293,970	\$ 248,960
Net difference between projected and actual earnings on plan inv.		318,098
Changes in actuarial assumptions	19,458,347	4,966,293
Changes in proportion	31,923	340,403
Contributions paid to TRA subsequent to the measurement date	726,547	
Total	<u>\$ 20,510,787</u>	<u>\$ 5,873,754</u>

\$726,547 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 3,615,795
2020	4,287,778
2021	3,894,450
2022	3,179,287
2023	(1,066,824)

Pension Liability Sensitivity - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.12 percent as well as the liability measured using one percent lower and one percent higher.

District Proportionate Share of NPL		
1% Decrease (4.12%)	Current (5.12%)	1% Increase (6.12%)
\$ 46,790,048	\$ 35,452,182	\$ 25,892,981

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

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

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

The District recognized total pension expense of \$6,640,445 for all of the pension plans in which it participates.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The District may contribute the actuarially determined contribution (ADC), an amount actuarially determined in accordance with parameters of GASB Statement 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The pay as you go cost for OPEB benefits is \$273,548. The annual employer contributions were \$137,358 and \$136,190 was the implicit subsidy. These costs are recognized as an expense when claims or premiums are paid. The General Fund paid for \$160,062 of 17-18 cost and transferred \$113,486 from the OPEB trust fund.

Employees Covered by Benefit Term – At June 30, 2018, the following employees were covered by the benefit terms:

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

Net OPEB Liability – The District's net OPEB liability of \$1,973,699 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016.

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

Inflation	2.5 percent
Salary increases	3.0 percent, average, including inflation
Investment rate of return	1.3 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	6.75 percent in 2016 to 5 percent over 7 years

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

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

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

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

Discount Rate – The discount rate used to measure the total OPEB liability was 3.2 percent. The projection of cash flows was used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 6/30/2017	\$ 3,289,167	\$ 1,364,563	\$ 1,924,604
Changes for the year:			
Service Cost	190,780		190,780
Interest Cost	93,635		93,635
Assumption Changes	(67,610)		(67,610)
Employer Contributions		160,062	(160,062)
Projected Investment Return		17,739	(17,739)
Differences between Expected and Actual Experience		(9,841)	9,841
Benefit Payments	(273,548)	(273,548)	-
Administrative Expenses		(250)	250
Net changes	(56,743)	(105,838)	49,095
Balances at 6/30/2018	\$ 3,232,424	\$ 1,258,725	\$ 1,973,699

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.2 percent) or one percentage point higher (4.2 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.2%)	Current (3.2%)	1% Increase (4.2%)
\$ 2,175,969	\$ 1,973,699	\$ 1,777,093

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.5 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0% over 6 years)	(6.5% decreasing to 5.0% over 6 years)	(7.5% decreasing to 6.0% over 6 years)
\$ 1,635,248	\$ 1,973,699	\$ 2,371,743

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the District recognized OPEB expense of \$258,936. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 11,801	\$
Changes in Assumptions		56,342
Total	\$ 11,801	\$ 56,342

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

Year Ending June 30	OPEB Expense Amount
2019	\$ (7,990)
2020	(7,990)
2021	(7,992)
2022	(9,299)
2023	(11,269)

NOTE 8 CAPITAL LEASE PAYABLE

The District has entered into lease agreements as lessee for financing eight buses valued at \$774,457. The estimated life for a bus is 8 years. This year, \$90,649 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.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, are as follows:

Year Ending June 30	Amount
2019	\$ 163,750
2020	118,710
2021	80,997
2022	<u>20,846</u>
Total Minimum Lease Payments	384,303
Less: Amount Representing Interest	<u>(18,544)</u>
Present Value of Minimum Lease Payments	<u>\$ 365,759</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	1,560,000		160,000	1,400,000	170,000
GO Building Bond	42,215,000		1,805,000	40,410,000	1,980,000
GO Refunding Bonds	11,265,000			11,265,000	
Unamortized Discount	(320,941)		(28,545)	(292,396)	(28,545)
Unamortized Premium	142,558		14,287	128,271	14,287
Total Bonds	<u>60,951,075</u>		<u>1,950,742</u>	<u>59,000,333</u>	<u>2,135,742</u>
Energy Service Payable	736,596		143,249	593,347	149,353
Capital Lease Payable	436,944	98,504	169,689	365,759	154,029
Accrued Interest Payable	953,286	266,635		1,219,921	
Severance Payable	47,580	5,846		53,426	
Total Long-Term Liabilities	<u>\$ 63,125,481</u>	<u>\$ 370,985</u>	<u>\$ 2,263,680</u>	<u>\$ 61,232,786</u>	<u>\$ 2,439,124</u>

The District's interest expense for the year ended June 30, 2018, was \$1,964,616.

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

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Component Unit:					
Notes Payable	\$ 27,800,000	\$	\$	\$ 27,800,000	\$
Unamortized bond issuance costs	(494,703)		(113,305)	(381,398)	
Total Component Unit	<u>\$ 27,305,297</u>	<u>\$</u>	<u>\$ (113,305)</u>	<u>\$ 27,418,602</u>	<u>\$</u>

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

The TRF EDA's interest expense for the year ended June 30, 2018 was \$278,000. The notes are secured by the project.

A. General Obligation Bonds

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2018
Capital Appreciation Bond	2013	3.5-4.1%	2026/31	\$ 6,089,458	\$	\$ 6,089,458
Taxable OPEB Bond	2009	4.6-5.2%	2019/20	2,410,000	160,000	1,400,000
Building Bond Series A	2012	3.3-4.0%	2027/33	18,615,000		18,615,000
Building Bond Series B	2012	2.05-3.0%	2019/25	21,500,000	1,705,000	16,380,000
Building Bond Series C	2012	3.0%	2019/26	7,775,000	100,000	5,415,000
GO Crossover Refunding	2016	2.0-2.5%	2023/33	9,965,000		9,965,000
GO OPEB Refunding	2016	1.35-2.15%	2020/25	1,300,000		1,300,000
						<u>\$ 59,164,458</u>

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2019	\$ 2,150,000	\$ 1,620,793
2020	3,615,000	1,571,431
2021	2,600,000	1,457,302
2022	12,115,000	1,393,745
2023	3,155,000	948,996
2024-2028	18,063,777	5,090,190
2029-2033	17,465,681	4,210,609
	<u>\$ 59,164,458</u>	<u>\$ 16,293,066</u>

B. Energy Service Payable

Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2018
Energy Service Loan	2006	4.20%	2019/22	\$ 2,036,359	\$ 143,249	\$ 593,347

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2019	\$ 149,353	\$ 21,977
2020	155,717	15,613
2021	162,352	8,978
2022	125,925	2,572
	<u>\$ 593,347</u>	<u>\$ 49,140</u>

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

C. Notes Payable

Component Unit:	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2018
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
2019	\$
2020	400,000
2021	20,430,270
2022	424,090
2023	428,347
Thereafter	<u>6,117,293</u>
	<u>\$ 27,800,000</u>

D. Crossover Refunding

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

General Obligation	Refunding Date	Interest Rate	Amount
GO School Building Bonds, Series 2012A	2/1/2022	3.3 - 4%	\$ 9,270,000
GO Taxable OPEB Bonds, Series 2009A	2/1/2019	4.6 - 5.2%	1,230,000

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

NOTE 10 INTERFUND TRANSFERS

Interfund Transfers:

Transfer In	Transfer Out	Amount
Nonmajor Governmental	General	\$28,000

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, 2018**

NOTE 11 OPERATING LEASES

The District has an agreement with the City of Thief River Falls whereby the District agrees to lease the City's facilities. Payments under this lease agreement made by the District during the year ended June 30, 2018, totaled \$125,826. The lease is renewed annually.

NOTE 12 SEVERANCE PAY

The District has several severance pay plans for various groups of employees. The plans call for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2018, the estimated liability under these plans was \$53,426.

NOTE 13 JOINT POWERS AGREEMENT

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

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

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

NOTE 14 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2018.

The District is involved in legal action. Although the outcome cannot be determined, the District believes any potential liability would not have a material impact on the financial condition of the District.

NOTE 15 RELATED PARTY ARRANGEMENTS

As a condition of the financing arrangement used by the District and its component unit, the TRF EDA, relating to the improvement, expansion, renovation, remodeling and reconstruction of two educational facilities ("Project"), the following lease arrangements were entered into during the year ended June 30, 2018:

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

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	Amount
2019	\$ 312,294
2020	846,396
2021	2,431,536
2022	2,468,010
2023	2,517,368
Thereafter	<u>41,851,038</u>
	<u>\$ 50,426,642</u>

NOTE 16 RISK MANAGEMENT

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

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

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

NOTE 17 COMMITTED CONTRACTS

Primary Government

As of June 30, 2018, the District had commitments in the General Fund of \$258,850 for construction.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 18 NEW PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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, 2018

	Budgeted Amounts		Actual	Over (Under)
	Original	Final		Final Budget
REVENUES				
Local Property Tax Levies	\$ 2,295,853	\$ 2,334,572	\$ 2,365,490	\$ 30,918
Other Local & County Revenues	670,724	660,724	840,695	179,971
Revenue From State Sources	17,641,133	17,958,773	18,364,000	405,227
Revenue From Federal Sources	858,867	835,639	801,606	(34,033)
Sale/Other Conversion of Asset	6,200	6,200	3,387	(2,813)
TOTAL REVENUES	<u>21,472,777</u>	<u>21,795,908</u>	<u>22,375,178</u>	<u>579,270</u>
EXPENDITURES				
Current				
Administration	1,575,218	1,573,811	1,532,400	(41,411)
District Support Services	591,883	594,473	540,213	(54,260)
Elementary & Secondary				
Regular Instruction	9,846,372	9,672,283	9,371,314	(300,969)
Vocational Education Instruction	435,711	522,572	529,605	7,033
Special Education Instruction	3,558,951	3,567,252	3,527,698	(39,554)
Instructional Support Services	1,029,594	1,017,820	1,224,018	206,198
Pupil Support Services	1,400,959	1,460,027	1,464,501	4,474
Sites and Buildings	2,675,063	2,666,340	2,520,353	(145,987)
Fixed Costs	172,710	163,610	82,820	(80,790)
Debt Service				
Principal	312,939	312,939	312,939	
Interest	39,738	39,738	39,738	
Capital Outlay	737,022	982,922	837,663	(145,259)
TOTAL EXPENDITURES	<u>22,376,160</u>	<u>22,573,787</u>	<u>21,983,262</u>	<u>(590,525)</u>
Revenues Over (Under) Expenditures	(903,383)	(777,879)	391,916	1,169,795
OTHER FINANCING SOURCES (USES)				
Debt Issued			98,504	98,504
Sale of Fixed Assets			1,776	1,776
Transfer Out	(5,000)	(28,000)	(28,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,000)</u>	<u>(28,000)</u>	<u>72,280</u>	<u>100,280</u>
Net Change in Fund Balances	(908,383)	(805,879)	464,196	1,270,075
Fund Balances - Beginning	5,875,126	5,875,126	5,875,126	
Fund Balances - Ending	<u>\$ 4,966,743</u>	<u>\$ 5,069,247</u>	<u>\$ 6,339,322</u>	<u>\$ 1,270,075</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS**

	<u>2017</u>	<u>2018</u>
Total OPEB Liability		
Service Cost	\$ 197,265	\$ 190,780
Interest	94,723	93,635
Assumption Changes		(67,610)
Benefit Payments	<u>(374,435)</u>	<u>(273,548)</u>
Net Change in Total OPEB Liability	<u>(82,447)</u>	<u>(56,743)</u>
Total OPEB Liability - Beginning	3,371,614	3,289,167
Total OPEB Liability Ending (a)	<u>\$ 3,289,167</u>	<u>\$ 3,232,424</u>
 Plan Fiduciary Net Position		
Contributions - Employer	\$ 205,581	\$ 160,062
Projected Investment Return	13,218	17,739
Differences Between Expected and Actual Experience		(9,841)
Benefit Payments	<u>(374,435)</u>	<u>(273,548)</u>
Administrative Expenses	<u>(250)</u>	<u>(250)</u>
Net Change in Plan Fiduciary Net Position	<u>(155,886)</u>	<u>(105,838)</u>
Plan Fiduciary Net Position - Beginning	<u>1,520,449</u>	<u>1,364,563</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,364,563</u>	<u>\$ 1,258,725</u>
 District's Net OPEB Liability - Ending (a) - (b)	<u>\$ 1,924,604</u>	<u>\$ 1,973,699</u>
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	41.49%	38.94%
 Covered Payroll	\$ 13,281,098	\$ 13,679,531
 District's Net OPEB Liability as a Percentage of Covered Payroll	14.49%	14.43%

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

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

<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
PERA					
2015	\$ 299,328	\$ 299,328	\$	\$ 4,038,246	7.41 %
2016	322,973	322,973		4,301,849	7.50
2017	341,032	341,032		4,539,716	7.50
2018	346,292	346,292		4,616,820	7.50
TRA					
2015	\$ 686,991	\$ 686,991	\$	\$ 9,159,858	7.50 %
2016	699,319	699,319		9,324,269	7.50
2017	717,255	717,255		9,563,356	7.50
2018	726,547	726,547		9,685,923	7.50

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS**

<u>Fiscal Year Ended June 30</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)</u>	<u>Total</u>	<u>District's Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
PERA							
2014	0.0705 % \$	3,311,737 \$	\$	3,311,737	\$ 3,738,454	88.58 %	78.70 %
2015	0.0687	3,560,391		3,560,391	4,038,246	88.17	78.19
2016	0.0692	5,618,697	73,378	5,692,075	4,301,849	132.32	68.90
2017	0.0705	4,500,673	56,557	4,557,230	4,539,716	99.14	75.90
TRA							
2014	0.1959 % \$	9,026,931 \$	635,089 \$	9,662,020	\$ 8,942,505	100.94 %	81.50 %
2015	0.1810	11,196,640	1,373,365	12,570,005	9,159,858	121.40	76.80
2016	0.1792	42,743,476	4,290,612	47,034,088	9,324,269	458.41	44.80
2017	0.1776	35,452,182	3,427,611	38,879,793	9,563,356	370.71	51.57

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

NOTE 1 BUDGETARY DATA

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

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

NOTE 2 DEFINED BENEFIT PLANS

PERA

2017 Changes

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes

Changes in Actuarial Assumptions:

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

- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

TRA

Changes in Actuarial Assumptions Since the 2016 Valuation:

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

NOTE 3 OTHER POST EMPLOYMENT BENEFITS

Plan Changes: None

Assumption Changes:

- The discount rate was changed from 3.50% to 3.40%.

Method Changes: None

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	Special Revenue Funds			Capital Project	Debt Service		Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund		OPEB Debt Service	Permanent Fund	
ASSETS							
Cash and Investments	\$ 338,462	\$ 249,133	\$ 30,007	\$	\$ 193,527	\$ 32,500	\$ 843,629
Investment with Fiscal Agent					1,230,480		1,230,480
Current Property Taxes Receivable		69,453			98,682		168,135
Delinquent Property Taxes Receivable		6,388			7,439		13,827
Accounts Receivable	268	26,927					27,195
Due From Department of Education	332	21,492			750		22,574
Due From Federal Govt. - DOE	27,668						27,668
Prepaid Expenses				78,389			78,389
Inventory	46,477						46,477
TOTAL ASSETS	\$ 413,207	\$ 373,393	\$ 30,007	\$ 78,389	\$ 1,530,878	\$ 32,500	\$ 2,458,374
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
LIABILITIES							
Accounts Payable	\$ 2,942	\$ 150	\$	\$	\$	\$	\$ 3,092
Payroll Deductions	8,548	27,101					35,649
TOTAL LIABILITIES	11,490	27,251					38,741
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue - Delinquent Taxes		6,388			7,439		13,827
Property Taxes Levied - Subs. Years		167,374			237,874		405,248
TOTAL DEFERRED INFLOWS OF RESOURCES		173,762			245,313		419,075
FUND BALANCES							
Fund Balance:							
Nonspendable: Prepaid				78,389			78,389
Nonspendable: Inventory	46,477						46,477
Nonspendable: Scholarships						25,000	25,000
Restricted for Food Service	355,240						355,240
Restricted for School Readiness		24,059					24,059
Restricted for Community Education		84,580					84,580
Restricted for ECFE		40,507					40,507
Restricted for Community Service		23,234					23,234
Restricted for Bond Refunding					1,230,480		1,230,480
Restricted for OPEB Debt Service					55,085		55,085
Restricted for Scholarships						7,500	7,500
Restricted for District Programs			30,007				30,007
TOTAL FUND BALANCES	401,717	172,380	30,007	78,389	1,285,565	32,500	2,000,558
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 413,207	\$ 373,393	\$ 30,007	\$ 78,389	\$ 1,530,878	\$ 32,500	\$ 2,458,374

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, 2018

	Special Revenue Funds			Capital Project	Debt Service		Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund		OPEB Debt Service	Permanent Fund	
REVENUES							
Local Property Tax Levies	\$	\$ 158,481	\$	\$	\$ 227,201	\$	\$ 385,682
Other Local & County Revenues	11,414	439,386	4,847		11,129	392	467,168
Revenue From State Sources	78,314	193,435			7,500		279,249
Revenue From Federal Sources	608,947						608,947
Sale/Other Conversion of Asset	561,922	3,556					565,478
TOTAL REVENUES	<u>1,260,597</u>	<u>794,858</u>	<u>4,847</u>		<u>245,830</u>	<u>392</u>	<u>2,306,524</u>
EXPENDITURES							
Current							
Community Education and Services		812,620					812,620
Pupil Support Services	1,130,164						1,130,164
Debt Service							
Principal					160,000		160,000
Interest and Other Fees					107,574		107,574
Capital Outlay	54,046	77		78,390			132,513
TOTAL EXPENDITURES	<u>1,184,210</u>	<u>812,697</u>		<u>78,390</u>	<u>267,574</u>		<u>2,342,871</u>
Revenues Over (Under) Expenditures	76,387	(17,839)	4,847	(78,390)	(21,744)	392	(36,347)
OTHER FINANCING SOURCES							
Transfer In		28,000					28,000
TOTAL OTHER FINANCING SOURCES		<u>28,000</u>					<u>28,000</u>
Net Change in Fund Balances	76,387	10,161	4,847	(78,390)	(21,744)	392	(8,347)
Fund Balances - Beginning	325,330	162,219	25,160	156,779	1,307,309	32,108	2,008,905
Fund Balances - Ending	<u>\$ 401,717</u>	<u>\$ 172,380</u>	<u>\$ 30,007</u>	<u>\$ 78,389</u>	<u>\$ 1,285,565</u>	<u>\$ 32,500</u>	<u>\$ 2,000,558</u>

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
For the Year Ended June 30, 2018

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Sale of Property	Debt Issued, Net	UFARS Balance End of Year
Governmental Funds							
General Fund							
Nonspendable	\$ 79,422	\$	\$	\$ (1,612)	\$	\$	\$ 77,810
Restricted for:							
Staff Development		270,193	286,552	16,359			
Health and Safety	37,808	(22,766)					15,042
Safe Schools		81,401	81,401				
Long Term Facility Maintenance	79,715	623,879	528,110				175,484
Operating Capital	878,233	614,395	600,126				892,502
Medical Assistance	38,999	17,159	3,315				52,843
Committed: Severance	47,580			5,846			53,426
Assigned for Technology	1,159,936			202,303			1,362,239
Assigned for Building Trades	85,000			(40,253)			44,747
Unassigned	3,468,433	20,790,917	20,483,758	(210,643)	1,776	98,504	3,665,229
Food Service Fund							
Nonspendable	40,192			6,285			46,477
Restricted: Food Service	285,138	1,260,597	1,184,210	(6,285)			355,240
Community Service Fund							
Restricted for:							
Community Education	78,424	407,161	424,005	23,000			84,580
ECFE	38,720	137,797	136,010				40,507
School Readiness	24,771	224,562	230,274	5,000			24,059
Community Service	20,304	25,338	22,408				23,234
Capital Project Fund							
Nonspendable	156,779		78,390				78,389
Gifts & Fundraising Fund							
Restricted: District Programs	25,160	4,847					30,007
Debt Service Fund							
Restricted for:							
Bond Refunding	9,649,181			(399,580)			9,249,601
Debt Service	675,932	3,175,601	3,536,261	399,580			714,852
OPEB Debt Service Fund							
Restricted for:							
Bond Refunding	1,250,780			(20,300)			1,230,480
OPEB Debt Service	56,529	245,830	267,574	20,300			55,085
Permanent Fund							
Nonspendable	25,000						25,000
Restricted: Scholarships	7,108	392					7,500
Fiduciary Fund							
OPEB Trust Fund							
Held in Trust for OPEB	1,364,563	7,648	113,486				1,258,725

**INDEPENDENT SCHOOL DISTRICT NO. 564
 THIEF RIVER FALLS, MINNESOTA
 GIFTS & FUNDRAISING FUND SCHEDULE
 For the Year Ended June 30, 2018**

	<u>Fourtown Grygla</u>	<u>Franklin Pop</u>	<u>Lincoln High General</u>	<u>Hall of Fame</u>	<u>Total</u>
FUND BALANCE - July 1	\$ 4,213	\$ 508	\$ 1,656	\$ 18,783	\$ 25,160
REVENUES					
Interest Earned	45	6	32	264	347
Gifts and Fundraising	<u>1,000</u>	<u> </u>	<u>3,500</u>	<u> </u>	<u>4,500</u>
TOTAL REVENUES	<u>1,045</u>	<u>6</u>	<u>3,532</u>	<u>264</u>	<u>4,847</u>
FUND BALANCE - June 30	<u>\$ 5,258</u>	<u>\$ 514</u>	<u>\$ 5,188</u>	<u>\$ 19,047</u>	<u>\$ 30,007</u>

This page intentionally left blank



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 564 as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2018. Our report includes a reference to other auditors who audited the financial statements for the Thief River Falls Economic Development Association, LLC, as described in our report on Independent School District No. 564's financial statements. The financial statements of the Thief River Falls Economic Development Association, LLC were not audited in accordance with the *Minnesota Legal Compliance Audit Guide for School Districts*.

Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* except as described in the schedule of findings and questioned costs as item 2018-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

Purpose of the Report

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

A handwritten signature in cursive script that reads "Brady Martz".

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

October 2, 2018

This page intentionally left blank



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 564, as of and for the year ended June 30, 2018, 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 2, 2018. Our report includes a reference to other auditors who audited the financial statements for the Thief River Falls Economic Development Association, LLC, as described in our report on Independent School District No. 564's financial statements. The financial statements of the Thief River Falls Economic Development Association, LLC were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



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

October 2, 2018



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 564's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

Purpose of the Report

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



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

October 2, 2018

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Amount
<u>U.S. Department of Education</u>		
Direct Programs:		
P.L.100-297 Indian Education	84.060	\$ 19,855
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	46,897
Title I	84.010	282,267
Special Education - Infants and Toddlers	84.181	7,645
<i>Special Education Cluster:</i>		
IDEA Part B 611	84.027	423,074
Preschool Incentives	84.173	16,987
<i>Total Special Education Cluster</i>		<u>440,061</u>
Passed-Through Pine to Prairie Cooperative:		
Carl Perkins	84.048A	<u>4,881</u>
Total Indirect		<u>781,751</u>
Total U.S. Department of Education		<u>801,606</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	112,986
National School Lunch Program	10.555	370,179
After School Snacks	10.555	3,982
Commodity Distribution (Nonmonetary Assistance)	10.555	40,882
Summer Food Program	10.559	55,918
<i>Total Child Nutrition Cluster</i>		<u>583,947</u>
Child Nutrition Discretionary Grants Limited Availability	10.579	<u>25,000</u>
Total U.S. Department of Agriculture		<u>608,947</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,410,553</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, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 564 under programs of the federal government for the year ended June 30, 2018 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 564, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 564.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 COMMODITY DISTRIBUTION

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

NOTE 4 PASS-THROUGH ENTITIES

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

NOTE 5 SUBRECIPIENTS

During 2018, the District did not pass any federal money to subrecipients.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

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

Federal Awards

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? 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 FINDINGS AND QUESTIONED COSTS
June 30, 2018**

Section IV- Minnesota Legal Compliance Findings

2018-001 FINDING

Criteria

Minnesota Statute Section 574.26 requires contractors doing public work to give both a performance bond and payment bond for contracts over \$100,000.

Condition

The District entered into a contract over \$100,000 without requiring a performance and payment bond.

Cause

Oversight by the District Staff.

Effect

The District was not in compliance with Minnesota State Statutes.

Recommendation

The District should comply with the statute.

View of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and all future contracts over \$100,000 will require a performance and payment bond.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
CORRECTIVE ACTION PLAN
June 30, 2018**

2018-001 FINDING

Contact Person – Superintendent

Corrective Action Plan – The District Business Manager will ensure that all future contracts will obtain a performance and payment bond when required.

Completion Date – Immediately

This page intentionally left blank



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, 2018, 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, 2018, 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 2, 2018

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, 2018

	Fund Balance 6-30-17	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-18
<u>Lincoln High School</u>					
Area Learning Center	\$ 220		\$ 51		\$ 169
Art	288				288
Band	566	1,024	369		1,221
Baseball Fundraising	9,218	14,005	16,456		6,767
Biology		3,949	2,792	1,110	2,267
Boys Basketball	1,763	9,104	9,877		990
Boys Golf	138	420	524		34
Boys Swimming	1	1,613	1,425		189
Boys Tennis	631	1,940	2,113		458
Class of 2018	1,137	2,952	7,287	3,198	
Class of 2019	2,775	368	219		2,924
Class of 2020	855	3,497	1,941		2,411
Class of 2021		2,873	1,376		1,497
College & Career	962		962		
Close Up	1,095	1,129	1,294		930
Community Action Club	182	8	44		146
Drama	1,488	2,700	2,050		2,138
Envirothon	874	3,523	3,644	(630)	123
F.F.A.	10,404	14,624	17,495		7,533
Football	5,985	19,978	18,795	200	7,368
German Club	1,803	4,737	4,913	(720)	907
Girls Basketball Fundraising	700	12,565	6,978	(3,564)	2,723
Girls Golf Fundraising	1,076	2,841	2,751		1,166
Girls Hockey Fundraising	140	4,575	1,447		3,268
Girls Swimming Fundraising	9,190	7,102	7,717		8,575
Girls Tennis	300	2,065	2,204		161
Interest	49	51		(52)	48
Math Counts	194	150	151		193
Math League	926	210	236		900
Miles Club	120	3,200	3,298		22
Multicultural Student Services	268				268
National Honor Society	2,129	1,949	1,670		2,408
Orchestra	497	1,665	784	240	1,618
Prom	4,906	11,179	10,791	(4,325)	969
Prowler Advertising	526	10,348	7,230	2,489	6,133
Prowler Potential	2,348	946	978	377	2,693
Retail Lab	1	300			301
Robotics	1,140	3,434	3,956		618
Science Fair	1,439			(1,439)	
Special Student Activities	1,026	337	488		875
Special Olympics	1,528	1,616	981		2,163
Speech	592	2,130	2,776	150	96
Student Activities	324			(324)	

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

INDEPENDENT SCHOOL DISTRICT NO. 564

THIEF RIVER FALLS, MINNESOTA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS

(CONTINUED)

For the Year Ended June 30, 2018

	Fund Balance 6-30-17	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-18
<u>Lincoln High School (Continued)</u>					
Student Senate	1,129	10,484	15,146	4,490	957
Track Fundraising	597	4,683	4,506		774
Weight Room	3,991	3,820	3,032	(2,000)	2,779
Wrestling Fundraising	287		640	800	447
Volleyball	280	500	757		23
Yearbook	2	4,247	2,157		2,092
Total Lincoln High School	76,090	178,841	174,301		80,630
<u>Franklin Middle School</u>					
Activity Day	2,983	3,211	5,482	(41)	671
Sixth Grade Book Fair	21	3,563	5,010	1,484	58
Class of 2021	1,424		1,424		
Class of 2022	11,601	2,193	14,628	2,505	1,671
Class of 2023	7,972		1,170	6,024	12,826
Class of 2024		13,951	21,564	13,652	6,039
Geckler	2,633	53,920	30,990	(24,923)	640
Jazz Band	78	11,762	11,613		227
PBIS	4,270		4,270		
Prowler Plus	8,322	3,226	327	8	11,229
School Store	12,848	2,902	8,845	8	6,913
Science Fair		401	609	208	
Student Council	907	1,512	3,229	1,068	258
Turn Around	6,895		920	5	5,980
Yearbook	2,628	3,700	3,471	2	2,859
Total Franklin Middle School	62,582	100,341	113,552		49,371
<u>Challenger Elementary School</u>					
Book Project	32		32		
Deep Portage	18,364	50,310	54,716		13,958
Student Community Account	2,157		2,157		
Kindergarten Parties	104	605	402		307
Destination Imagination	118		118		
Readathon	573	300	378		495
PE Activities	414	3,532	3,450		496
School Store	2,262	2,910	3,798		1,374
Science	959		959		
Total Challenger Elementary School	24,983	57,657	66,010		16,630
Total All Funds	\$ 163,655	\$ 336,839	\$ 353,863	\$	\$ 146,631

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTE TO STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENT
June 30, 2018**

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.

This page intentionally left blank



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

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

We have audited in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 564, for the year ended June 30, 2018, and the related note to the financial statement, and have issued our report thereon dated October 2, 2018, which was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records, therefore, we were unable to audit the cash collections beyond the amounts recorded.

Compliance

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

In connection with our audit, we found Independent School District No. 564 complied with the material terms and conditions with the provisions of the *Manual for Activity Fund Accounting* except for items 2018-001(a) in the schedule of findings – student activity accounts. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

Purpose of the Report

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

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

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

October 2, 2018

This page intentionally left blank

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS
June 30, 2018**

2018-001(a) FINDING

Criteria

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

Condition

There are multiple student activity accounts that have been inactive for over one year and no plan submitted.

Cause

Oversight by District staff.

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will correct immediately.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
CORRECTIVE ACTION PLAN – STUDENT ACTIVITY ACCOUNTS
June 30, 2018**

2018-001(a) FINDING

Contact Person – District Business Manager

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

Completion Date – Immediately

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2018

District Name: INDEPENDENT SCHOOL DISTRICT NO. 564

District Number: 564

	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	22,375,178	22,375,177	1	Total Revenue			
Total Expenditures	21,983,262	21,983,263	(1)	Total Expenditures	78,390	78,390	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	77,810	77,809	1	460 Non Spendable Fund Balance	78,389	78,389	
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development				407 Capital Projects Levy			
406 Health & Safety	15,042	15,042		409 Alternative Facility Program			
407 Capital Projects Levy				413 Projects Funded By COP			
408 Cooperative Revenue				<i>Restricted</i>			
413 Building Projects Funded by COP				464 Restricted Fund Balance			
414 Operating Debt				<i>Unassigned:</i>			
416 Levy Reduction				463 Unassigned Fund Balance			
417 Taconite Building Maintenance				Reconciliation of Building Construction	156,779	156,779	
424 Operating Capital	892,502	892,502					
426 \$25 Taconite				07 DEBT SERVICE			
427 Disabled Accessibility				Total Revenue	3,175,601	3,175,601	
428 Learning & Development				Total Expenditures	3,536,261	3,536,261	
434 Area Learning Center				<i>Non Spendable</i>			
435 Contracted Alt Programs				460 Non Spendable Fund Balance			
436 State Approved Alt Program				<i>Restricted/Reserved:</i>			
438 Gifted & Talented				425 Bond Refundings	9,249,601	9,249,601	
440 Teacher Development and Eval.				451 QZAB Payments			
441 Basic Skills Programs				<i>Restricted</i>			
445 Career and Technical Programs				464 Restricted Fund Balance	714,852	714,852	
449 Safe Schools Levy				<i>Unassigned:</i>			
451 QZAB Payments				463 Unassigned Fund Balance			
452 OPEB Liab Not In Trust				Reconciliation of Debt Service	16,676,315	16,676,315	
453 Unfunded Sev & Retirement Levy							
467 Long Term Facilities Maintenance	175,484	175,483	1	08 TRUST			
472 Medical Assistance	52,843	52,843		Total Revenue	5,239	5,239	
<i>Restricted</i>				Total Expenditures			
464 Restricted Fund Balance				<i>Unassigned:</i>			
<i>Committed</i>				422 Unassigned Fund Balance	62,507	62,507	
418 Committed for Separation	53,426	53,426		Reconciliation of Trust	67,746	67,746	
461 Committed							
<i>Assigned</i>				20 INTERNAL SERVICE			
462 Assigned Fund Balance	1,406,986	1,406,987	(1)	Total Revenue			
<i>Unassigned:</i>				Total Expenditures			
422 Unassigned Fund Balance	3,665,229	3,665,227	2	<i>Unassigned:</i>			
Reconciliation of General	50,697,762	50,697,759	3	422 Unassigned Fund Balance			
				Reconciliation of Internal Service			
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST FUND			
Total Revenue	1,260,597	1,260,596	1	Total Revenue			
Total Expenditures	1,184,210	1,184,210		Total Expenditures			
<i>Non Spendable</i>				<i>Unassigned:</i>			
460 Non Spendable Fund Balance	46,477	46,477		422 Unassigned Fund Balance			
<i>Restricted/Reserved:</i>				Reconciliation of OPEB Revocable Trust			
452 OPEB Liab Not In Trust							
<i>Restricted</i>				45 OPEB IRREVOCABLE TRUST FUND			
464 Restricted Fund Balance	355,240	355,239	1	Total Revenue	7,648	7,648	
<i>Unassigned</i>				Total Expenditures	113,486	113,486	
463 Unassigned Fund Balance				<i>Unassigned:</i>			
Reconciliation of Food Service	2,846,524	2,846,522	2	422 Unassigned Fund Balance	1,258,725	1,258,725	
				Reconciliation of OPEB Irrevocable Trust	1,379,859	1,379,859	
04 COMMUNITY SERVICE				47 OPEB DEBT SERVICE FUND			
Total Revenue	794,858	794,858		Total Revenue	245,830	245,830	
Total Expenditures	812,697	812,697		Total Expenditures	267,574	267,574	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance				460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted</i>			
426 \$25 Taconite				425 Bond Refunding	1,230,480	1,230,480	
431 Community Education	84,580	84,580		464 Restricted Fund Balance	55,085	55,085	
432 E.C.F.E.	40,507	40,507		<i>Unassigned</i>			
440 Teacher Development and Eval.				463 Unassigned Fund Balance			
444 School Readiness	24,059	24,060	(1)	Reconciliation of OPEB Debt Service	1,798,969	1,798,969	
447 Adult Basic Education							
452 OPEB Liab Not In Trust							
<i>Restricted</i>							
464 Restricted Fund Balance	23,234	23,233	1				
<i>Unassigned</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	1,779,935	1,779,935					