

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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THIEF RIVER FALLS, MINNESOTA
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**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2019**

Wayne Nomeland	Chairman
Misty Hempel	Vice-Chairman
Craig Mattson	Clerk
Chris Melbye	Treasurer
Mike Spears	Director
Michelle Westerman	Director
Ryan Walseth	Director
Tanya Monson-Ek	District Business Manager
Bradley Bergstrom	Superintendent

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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, 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 18, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

October 18, 2019

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**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019**

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

Financial Highlights

For the year ending June 30, 2019, the District's unassigned fund balance decreased from \$3,665,229 to \$3,313,558 or a decrease of \$351,671.

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, 2019**

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, 2019**

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was \$(15,799,335) on June 30, 2019 (see details in Table A-1). This was an increase of 21.6 percent from the prior year. This significant increase is due to amortization of current year deferred inflows related to TRA and PERA.

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

	<u>2019</u>	<u>2018</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 44,247,364	\$ 44,869,540	(1.4) %
Capital Assets	39,664,856	40,847,490	(2.9)
Total Assets	<u>83,912,220</u>	<u>85,717,030</u>	(2.1)
Deferred Outflows of Resources	<u>16,359,932</u>	<u>21,823,925</u>	(25.0)
Long-term Liabilities	71,504,566	100,720,216	(29.0)
Other Liabilities	4,010,186	3,600,973	11.4
Total Liabilities	<u>75,514,752</u>	<u>104,321,189</u>	(27.6)
Deferred Inflows of Resources	<u>40,556,735</u>	<u>23,375,157</u>	73.5
Net Position			
Net Investment in Capital Assets	13,925,824	12,768,099	9.1
Restricted	1,938,220	1,877,054	3.3
Unrestricted	<u>(31,663,379)</u>	<u>(34,800,544)</u>	9.0
Total Net Position	<u>\$ (15,799,335)</u>	<u>\$ (20,155,391)</u>	21.6 %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019**

Change in Net Position

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

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

	<u>2019</u>	<u>2018</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 1,346,647	\$ 1,336,649	0.7 %
Operating Grants and Contributions	4,726,948	5,082,893	(7.0)
Capital Grants and Contributions	786,463	617,612	27.3
General Revenues			
Property Taxes	5,951,269	5,795,945	2.7
Unrestricted State Aid	14,785,591	14,498,485	2.0
Other Sources	1,387,103	513,912	169.9
Total Revenues	<u>28,984,021</u>	<u>27,845,496</u>	4.1
Expenses			
Administration	1,544,109	1,521,502	1.5
District Support Services	579,404	544,731	6.4
Elementary & Secondary Regular Instruction	3,624,874	14,773,092	(75.5)
Vocational Education Instruction	550,200	508,469	8.2
Special Education Instruction	3,633,816	3,527,698	3.0
Community Education and Services	814,877	812,697	0.3
Instructional Support Services	2,686,958	1,262,776	112.8
Pupil Support Services	2,783,052	2,917,821	(4.6)
Sites and Buildings	5,933,395	5,890,450	0.7
Fixed Costs	120,353	82,820	45.3
Interest on Long-Term Debt	1,899,451	2,057,389	(7.7)
Depreciation - Unallocated	457,476	459,438	(0.4)
Total Expenses	<u>24,627,965</u>	<u>34,358,883</u>	(28.3)
Change in Net Position	4,356,056	(6,513,387)	166.9
Net Position - Beginning	<u>(20,155,391)</u>	<u>(13,642,004)</u>	47.7
Net Position - Ending	<u>\$ (15,799,335)</u>	<u>\$ (20,155,391)</u>	(21.6) %

The District's total revenues were \$28,984,021 for the year ended June 30, 2019. 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 \$24,627,965. The District's expenses are predominantly related to educating and caring for students.

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019**

Total revenues surpassed expenses, increasing net position \$4,356,056 over last year. For the year ended June 30, 2019, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by \$5,081,085. For the year ended June 30, 2018, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by \$5,357,588.

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)
	2019	2018		
Governmental Funds				
General	\$ 6,286,917	\$ 6,339,322	\$ (52,405)	(0.8) %
Debt Service Fund	10,237,763	9,964,453	273,310	2.7

The General Fund Balance decreased slightly but was very close to breaking even for 2019-20. On the revenue side, the District had increases in interest earnings, state special education and other local revenues. General Fund expenditures were lower in areas of capital outlay, buildings and grounds, technology, and unemployment insurance. With the approved technology infrastructure network refresh, almost \$950,000 of the District's fund balance was assigned for technology infrastructure.

The Debt Service Fund Balance increased due to valuation increases 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, 2019

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

Table A-4
General Fund Revenue

	<u>2019</u>	<u>2018</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 2,723,870	\$ 2,365,490	\$ 358,380	15.2 %
Interest Earnings	139,548	60,680	78,868	130.0
Other	1,067,569	780,015	287,554	36.9
State Sources	18,754,624	18,364,000	390,624	2.1
Federal Sources	892,961	801,606	91,355	11.4
Other	3,176	3,387	(211)	(6.2)
Total General Fund Revenue	<u>\$ 23,581,748</u>	<u>\$ 22,375,178</u>	<u>\$ 1,206,570</u>	5.4 %

Total general fund revenue increased by \$1,206,570 or 5.4 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>2019</u>	<u>2018</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 14,312,321	\$ 14,151,253	\$ 161,068	1.1 %
Employee Benefits	3,481,502	3,576,678	(95,176)	(2.7)
Purchased Services	1,980,326	1,741,946	238,380	13.7
Supplies and Materials	1,003,727	1,060,083	(56,356)	(5.3)
Capital Expenditures	2,446,893	837,663	1,609,230	192.1
Debt Service	399,803	352,677	47,126	13.4
Other Expenditures	284,510	262,962	21,548	8.2
Total General Fund Expenditures	<u>\$ 23,909,082</u>	<u>\$ 21,983,262</u>	<u>\$ 1,925,820</u>	8.8 %

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019**

General Fund Budgetary Highlights

During the year the District revised its budget twice.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$1,179,042. The actual results for the year show a deficit of \$52,405.

- Actual revenue amounts were higher than budgeted in several 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, 2019. Additions totaling \$997,129 consisted mainly of building improvements, audio and visual equipment, kitchen equipment, and three buses. Disposals totaling \$220,221 consisted of three buses.

Long-Term Debt

At year-end, the District had \$58,063,987 of long-term debt. This consisted of bonded indebtedness net of premiums and discounts of \$55,634,591, energy service payable of \$443,994, capital lease payable of \$448,896, accrued interest payable of \$1,496,651, and severance payable of \$39,855. 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, 2019

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component Unit</u> <u>TRF EDA</u>
ASSETS		
Cash and Investments	\$ 9,115,745	\$ 19,934
Investment with Fiscal Agent	9,486,992	
Restricted Cash		92,130
Property Taxes Receivable, Net of Allowance	2,889,977	
Accounts Receivable	534,569	
Due From MN School Districts	37,171	
Due From Department of Education	1,817,957	
Due From Federal Govt. - DOE	104,725	
Prepaid Expenses	188,974	
Inventory	60,860	
Note Receivable - USBCDC	20,010,394	
Capital Assets		
Land, Construction in Process	894,056	
Other Capital Assets, Net of Depreciation	38,770,800	21,751,232
TOTAL ASSETS	<u>83,912,220</u>	<u>21,863,296</u>
DEFERRED OUTFLOWS OF RESOURCES		
Accrued Revenue		12,074,378
Cost Sharing Defined Benefit Pension Plan	16,302,645	
Other Postemployment Benefit Plan	57,287	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>16,359,932</u>	<u>12,074,378</u>
LIABILITIES		
Accounts Payable	243,468	
Contract Payable	91,870	
Accrued Expenses		13,050
Due To Other MN School Districts	5,338	
Due To Other Governmental Units	162	
Payroll Deductions	235,467	
Unearned Revenue	1,294	
Interest Payable	629,128	
Vacation Payable	99,996	
Long-Term Liabilities Due Within One Year	2,703,463	
Long-Term Liabilities		
Bonds, Net Unamortized Premiums (Discounts)	55,634,591	
Capital Lease Payable	448,896	
Energy Service Payable	443,994	
Notes Payable - MMCDC, Net		18,623,322
Notes Payable - USBCDE, Net		8,908,585
Interest Payable	1,496,651	
Severance Payable	39,855	
Net Pension Liability	14,827,332	
Net Other Postemployment Benefit Liability	1,316,710	
Less Amounts Due Within One Year	(2,703,463)	
Total Long-Term Liabilities	<u>71,504,566</u>	<u>27,531,907</u>
TOTAL LIABILITIES	<u>75,514,752</u>	<u>27,544,957</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, 2019**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit TRF EDA</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Rent Payable	12,074,378	
Property Taxes Levied - Subs. Years	6,378,198	
Cost Sharing Defined Benefit Pension Plan	21,375,297	
Other Postemployment Benefit Plan	728,862	
	<hr/>	
TOTAL DEFERRED INFLOWS OF RESOURCES	40,556,735	
	<hr/>	
NET POSITION		
Net Investment in Capital Assets	13,925,824	
Restricted for:		
Operating Capital	806,771	
Long Term Facility Maintenance	326,484	
Medical Assistance	48,801	
Food Service	407,895	
School Readiness	58,386	
Community Education	127,508	
ECFE	42,051	
Community Service	17,967	
OPEB Debt Service	42,315	
District Programs	27,238	
Permanent Fund - Non Expendable	25,000	
Permanent Fund - Expendable	7,804	
Unrestricted	(31,663,379)	
Member's Equity		6,392,717
	<hr/>	<hr/>
TOTAL NET POSITION	\$ (15,799,335)	\$ 6,392,717
	<hr/>	<hr/>

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

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INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit TRF EDA
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES						
Administration	\$ 1,544,109	\$	\$	\$ 74,369	\$ (1,469,740)	\$
District Support Services	579,404			2,597	(576,807)	
Elementary & Secondary						
Regular Instruction	3,624,874	263,581	1,086,577	62,813	(2,211,903)	
Vocational Education Instruction	550,200	645	28,286		(521,269)	
Special Education Instruction	3,633,816		2,315,025		(1,318,791)	
Community Education and Services	814,877	484,294	201,828		(128,755)	
Instructional Support Services	2,686,958	43,882	341,510	73,858	(2,227,708)	
Pupil Support Services	2,783,052	537,618	728,988	118,706	(1,397,740)	
Sites and Buildings	5,933,395	16,627	24,734	454,120	(5,437,914)	
Fixed Costs	120,353				(120,353)	
Interest on Long-Term Debt	1,899,451				(1,899,451)	
Depreciation - Unallocated	457,476				(457,476)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 24,627,965	\$ 1,346,647	\$ 4,726,948	\$ 786,463	(17,767,907)	
COMPONENT UNIT:						
TRF EDA	\$ 1,178,547	\$ 2,084,545	\$	\$		905,998
GENERAL REVENUES						
Taxes						
Property Taxes, Levied for General Purposes					2,720,623	
Property Taxes, Levied for Community Education and Services					161,565	
Property Taxes, Levied for Debt Services					2,839,463	
Property Taxes, Levied for OPEB Debt Services					229,618	
Unrestricted State Aid					14,785,591	
Unrestricted Investment Earnings					693,794	44
Other General Revenue					693,309	
TOTAL GENERAL REVENUES					22,123,963	44
Change in Net Position					4,356,056	906,042
Equity Distributions						(35,000)
Net Position - Beginning					(20,155,391)	5,521,675
Net Position - Ending					\$ (15,799,335)	\$ 6,392,717

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, 2019

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 5,637,182	\$ 2,562,269	\$ 916,294	\$ 9,115,745
Investment with Fiscal Agent		9,486,992		9,486,992
Current Property Taxes Receivable	1,124,467	1,612,961	162,023	2,899,451
Delinquent Property Taxes Receivable	4,364	73,797	14,365	92,526
Accounts Receivable	512,606		21,963	534,569
Due From MN School Districts	37,171			37,171
Due From Department of Education	1,754,412	42,934	20,611	1,817,957
Due From Federal Govt. - DOE	74,441		30,284	104,725
Prepaid Expenses	188,973			188,973
Inventory			60,861	60,861
TOTAL ASSETS	\$ 9,333,616	\$ 13,778,953	\$ 1,226,401	\$ 24,338,970
LIABILITIES				
Accounts Payable	\$ 235,038		\$ 8,430	\$ 243,468
Contract Payable	91,870			91,870
Due To Other MN School Districts	5,338			5,338
Due To Other Governmental Units	162			162
Payroll Deductions	193,124		42,343	235,467
Unearned Revenue	1,294			1,294
TOTAL LIABILITIES	526,826		50,773	577,599
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	4,364	73,797	14,365	92,526
Property Taxes Levied - Subs. Years	2,515,509	3,467,393	395,296	6,378,198
TOTAL DEFERRED INFLOWS OF RESOURCES	2,519,873	3,541,190	409,661	6,470,724
FUND BALANCES				
Fund Balance:				
Nonspendable: Prepaid	188,973			188,973
Nonspendable: Inventory			60,861	60,861
Nonspendable: Scholarships			25,000	25,000
Restricted for Operating Capital	806,771			806,771
Restricted for Long Term Facility Maintenance	326,484			326,484
Restricted for Food Service			347,034	347,034
Restricted for School Readiness			58,386	58,386
Restricted for Community Education			127,508	127,508
Restricted for ECFE			42,051	42,051
Restricted for Community Service			17,967	17,967
Restricted for Bond Refunding		9,486,992		9,486,992
Restricted for OPEB Debt Service			52,118	52,118
Restricted for Debt Service		750,771		750,771
Restricted for Scholarships			7,804	7,804
Restricted for District Programs			27,238	27,238
Restricted for Medical Assistance	48,801			48,801
Committed for Severance	39,855			39,855
Assigned for Technology	1,512,728			1,512,728
Assigned for Building Trades	49,747			49,747
Unassigned	3,313,558			3,313,558
TOTAL FUND BALANCES	6,286,917	10,237,763	765,967	17,290,647
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 9,333,616	\$ 13,778,953	\$ 1,226,401	\$ 24,338,970

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, 2019

Total fund balances - governmental funds \$ 17,290,647

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	67,214,428
Less accumulated depreciation	(27,549,572)

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.

16,359,932

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	(55,784,458)
Capital lease payable	(448,896)
Energy service payable	(443,994)
Unamortized premiums (discounts)	149,867
Severance payable	(39,855)
Net Pension Liability	(14,827,332)
Net other postemployment benefit liability	(1,316,710)

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.

(22,104,159)

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

(99,996)

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.

92,526

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.

(2,125,779)

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

(12,074,378)

Net position - governmental activities

\$ (15,799,335)

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, 2019

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	\$ 2,723,870	\$ 2,836,787	\$ 390,645	\$ 5,951,302
Other Local & County Revenues	1,207,117	517,285	555,728	2,280,130
Revenue From State Sources	18,754,624	429,337	262,405	19,446,366
Revenue From Federal Sources	892,961		592,839	1,485,800
Sale/Other Conversion of Asset	3,176		516,863	520,039
TOTAL REVENUES	23,581,748	3,783,409	2,318,480	29,683,637
EXPENDITURES				
Current				
Administration	1,539,978			1,539,978
District Support Services	574,405			574,405
Elementary & Secondary				
Regular Instruction	9,346,613		8,429	9,355,042
Vocational Education Instruction	544,741			544,741
Special Education Instruction	3,632,650			3,632,650
Community Education and Services			811,350	811,350
Instructional Support Services	1,231,110			1,231,110
Pupil Support Services	1,479,431		1,153,191	2,632,622
Sites and Buildings	2,593,105			2,593,105
Fixed Costs	120,353			120,353
Debt Service				
Principal	368,103	1,980,000	1,400,000	3,748,103
Interest and Other Fees	31,700	1,530,099	92,868	1,654,667
Capital Outlay	2,446,893		114,192	2,561,085
TOTAL EXPENDITURES	23,909,082	3,510,099	3,580,030	30,999,211
Revenues Over (Under) Expenditures	(327,334)	273,310	(1,261,550)	(1,315,574)
OTHER FINANCING SOURCES (USES)				
Debt Issued	301,888			301,888
Transfers In			26,959	26,959
Transfers Out	(26,959)			(26,959)
TOTAL OTHER FINANCING SOURCES (USES)	274,929		26,959	301,888
Net Change in Fund Balances	(52,405)	273,310	(1,234,591)	(1,013,686)
Fund Balances - Beginning	6,339,322	9,964,453	2,000,558	18,304,333
Fund Balances - Ending	<u>\$ 6,286,917</u>	<u>\$ 10,237,763</u>	<u>\$ 765,967</u>	<u>\$ 17,290,647</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, 2019

Total net change in fund balances - governmental funds \$ (1,013,686)

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	990,441
Depreciation expense	(2,173,075)

Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position. 3,748,104

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. (301,888)

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. (244,785)

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. (1,772,251)

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (33)

Change in net pension liability 25,125,523

Change in deferred outflows and inflows of resources related to net pension liability (20,044,438)

Changes in deferred outflows and inflows of resources related to other postemployment benefit liability. (627,034)

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	(1,382)
Other postemployment benefits	656,989
Severance payable	13,571

Change in net position - governmental activities \$ 4,356,056

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, 2019**

	<u>OPEB Trust Fund</u>
ASSETS	
Investments	\$ <u>1,195,662</u>
TOTAL ASSETS	<u>1,195,662</u>
NET POSITION	
Held in Trust for OPEB	\$ <u><u>1,195,662</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, 2019**

	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	\$ <u>8,102</u>
TOTAL ADDITIONS	<u>8,102</u>
DEDUCTIONS	
Benefits	<u>71,165</u>
TOTAL DEDUCTIONS	<u>71,165</u>
Change in Net Position	(63,063)
Net Position Held in Trust for OPEB - Beginning	<u>1,258,725</u>
Net Position Held in Trust for OPEB - Ending	<u>\$ 1,195,662</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, 2019**

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 economy 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, 2019**

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, 2019**

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, 2019

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 2018 which are not payable until 2019, 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, 2019**

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, 2019

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. Postemployment 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 \$16 million made by the State of Minnesota to the fund in 2018.

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of 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.

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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

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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, 2019, was \$702,600.

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

	Governmental Activities	Fiduciary Fund	Total
Cash	\$ 110,692	\$	\$ 110,692
Investments	18,492,045	1,195,662	19,687,707
Total	<u>\$ 18,602,737</u>	<u>\$ 1,195,662</u>	<u>\$ 19,798,399</u>

As of June 30, 2019, the District had the following investments:

Investments	Maturities	Fair Value (Level 1)
US Treasury State & Local	1/21/2020	\$ 43,886
US Treasury State & Local	7/31/2020	44,029
US Treasury State & Local	12/28/2020	45,993
US Treasury State & Local	7/14/2021	44,439
US Treasury State & Local	1/31/2022	9,262,650
Total Investments (By Fair Value)		<u>9,440,997</u>
Minnesota School District Liquid Asset Fund	N/A	79,666
Mn Trust	N/A	10,121,049
US Bank	N/A	45,995
Total Investments		<u>\$ 19,687,707</u>

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

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

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

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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, 2019, 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.

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NOTE 3 RESTRICTED CASH – COMPONENT UNIT

As of June 30, 2019, 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.

Operating Reserves	\$	15,000
MMCDC Reserves		42,022
USBCDC Reserves		<u>35,108</u>
	\$	<u><u>92,130</u></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.

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NOTE 5 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 780,844	\$	\$	\$ 780,844
Construction in Progress	6,688	113,212	6,688	113,212
Total Capital Assets, Not Being Depreciated	<u>787,532</u>	<u>113,212</u>	<u>6,688</u>	<u>894,056</u>
Capital Assets, Being Depreciated:				
Land Improvements	1,304,114			1,304,114
Buildings	59,610,552	404,610		60,015,162
Equipment	4,742,010	479,307	220,221	5,001,096
Total Capital Assets, Being Depreciated	<u>65,656,676</u>	<u>883,917</u>	<u>220,221</u>	<u>66,320,372</u>
Less Accumulated Depreciation For:				
Land Improvements	832,509	33,996		866,505
Buildings	21,381,420	1,873,305		23,254,725
Equipment	3,382,789	265,774	220,221	3,428,342
Total Accumulated Depreciation	<u>25,596,718</u>	<u>2,173,075</u>	<u>220,221</u>	<u>27,549,572</u>
Total Capital Assets, Being Depreciated, Net	<u>40,059,958</u>	<u>(1,289,158)</u>		<u>38,770,800</u>
Governmental Activities Capital Assets, Net	<u>\$ 40,847,490</u>	<u>\$ (1,175,946)</u>	<u>\$ 6,688</u>	<u>\$ 39,664,856</u>

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

Elementary & Secondary Regular Instruction	\$ 31,090
Vocational Education Instruction	4,649
Special Education Instruction	1,166
Pupil Support Services	221,002
Sites and Buildings	1,457,692
	<u>1,715,599</u>
Unallocated	457,476
Total Depreciation Expense	<u>\$ 2,173,075</u>

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Changes in capital assets for the discretely presented component unit for the period ended June 30, 2019 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>3,022,238</u>	<u>663,997</u>		<u>3,686,235</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 22,415,229</u>	<u>\$ (663,997)</u>	<u>\$</u>	<u>\$ 21,751,232</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

All full-time and certain part-time employees of the District are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated Plan member is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement

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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.

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

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were \$341,749. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2019, the District reported a liability of \$3,816,742 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$125,272. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0688% at the end of the measurement period and 0.0705% for the beginning of the period.

District's proportionate share of net pension liability	\$ 3,816,742
State of Minnesota's proportionate share of the net pension liability associated with the District	125,272
Total	<u>\$ 3,942,014</u>

For the year ended June 30, 2019, the District recognized pension expense of \$165,999 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$29,213 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2019, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 103,407	\$ 111,965
Difference between projected and actual investment earnings		401,605
Changes in actuarial assumptions	366,716	436,102
Changes in proportion	46,551	82,116
Contributions paid to PERA subsequent to the measurement date	341,749	
Total	<u>\$ 858,423</u>	<u>\$ 1,031,788</u>

\$341,749 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2020	\$ 126,076
2021	(219,856)
2022	(341,675)
2023	(79,659)

Actuarial Assumptions – The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

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

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.

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- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36.00%	5.10%
International Stocks	17.00%	5.30%
Bonds (Fixed Income)	20.00%	0.75%
Alternative Assets (Private Markets)	25.00%	5.90%
Cash	2.00%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
\$ 6,202,694	\$ 3,816,742	\$ 1,847,206

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.

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B. TEACHERS RETIREMENT ASSOCIATION

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

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

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

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

Tier I Benefits:

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

With these provisions:

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

or

Tier II Benefits:

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated members and 2.7 percent per year for Basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent for Basic members applies. Beginning July 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.

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

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

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

Contribution Rate – Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2017, June 30, 2018, and June 30, 2019, were:

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

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

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

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2018
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)

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Actuarial Cost Method Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	7.5%
Price Inflation	2.50%
Wage Growth Rate	2.85% for 10 years and 3.25% thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25 – 9.25% thereafter
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption

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

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

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

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

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Changes in actuarial assumptions since the 2017 valuation:

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

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

Net Pension Liability - On June 30, 2019, the District reported a liability of \$11,010,590 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1753% at the end of the measurement period and 0.1776% for the beginning of the year.

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

District's proportionate share of net pension liability	\$	11,010,590
State's proportionate share of the net pension liability associated with the District	\$	1,034,630

For the year ended June 30, 2019, the District recognized pension expense of \$(3,961,464). It also recognized \$(722,105) as a decrease to pension expense for the support provided by direct aid.

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On June 30, 2019, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 130,921	\$ 224,629
Net difference between projected and actual earnings on plan inv.		838,355
Changes in actuarial assumptions	14,535,985	18,825,690
Changes in proportion	14,089	454,835
Contributions paid to TRA subsequent to the measurement date	763,227	
Total	<u>\$ 15,444,222</u>	<u>\$ 20,343,509</u>

\$763,227 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2020	\$ 1,053,970
2021	660,642
2022	(54,521)
2023	(4,300,629)
2024	(3,021,976)

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

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
\$ 17,473,588	\$ 11,010,590	\$ 5,678,460

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 \$(3,795,465) for all of the pension plans in which it participates.

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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 \$205,108. The annual employer contributions were \$107,240 and \$97,868 was the implicit subsidy. These costs are recognized as an expense when claims or premiums are paid. The General Fund paid for \$133,943 of 18-19 cost and transferred \$71,165 from the OPEB trust fund.

Employees Covered by Benefit Term – At June 30, 2019, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	19
Active plan members	296
	<u>315</u>

Net OPEB Liability – The District's net OPEB liability of \$1,316,710 was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018.

Actuarial Assumptions – The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.0 percent
Investment rate of return	3.0 percent, net of OPEB plan investment expense,
Healthcare cost trend rates	6.5 percent in 2018 grading to 5 percent over 6 years

Mortality rates were based on the RP-2014 White Collar Mortality Table with MP-2017 Generational Improvement Scale.

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The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period of July 1, 2018 to June 30, 2019.

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>
Cash	5%	2.00%
Fixed Income	95%	3.00%
Total	100%	3.00%

Discount Rate – The discount rate used to measure the total OPEB liability was 3.1 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 6/30/2018	\$ 3,232,424	\$ 1,258,725	\$ 1,973,699
Changes for the year:			
Service Cost	136,417		136,417
Interest Cost	104,547		104,547
Assumption Changes	30,284		30,284
Plan Changes	34,354		34,354
Employer Contributions		133,943	(133,943)
Projected Investment Return		37,762	(37,762)
Differences between Expected and			
Actual Experience	(820,545)	(29,409)	(791,136)
Benefit Payments	(205,108)	(205,108)	-
Administrative Expenses		(250)	250
Net changes	(720,051)	(63,062)	(656,989)
Balances at 6/30/2019	\$ 2,512,373	\$ 1,195,663	\$ 1,316,710

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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 (2.1 percent) or one percentage point higher (4.1 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.1%)	Current (3.1%)	1% Increase (4.1%)
\$ 1,467,301	\$ 1,316,710	\$ 1,169,501

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)
\$ 1,087,553	\$ 1,316,710	\$ 1,584,034

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2019, the District recognized OPEB expense of \$111,978. At June 30, 2019, 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	\$ 32,050	\$ 683,788
Changes in Assumptions	25,237	45,074
Total	\$ 57,287	\$ 728,862

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
2020	\$ (133,819)
2021	(133,821)
2022	(135,128)
2023	(137,097)
2024	(131,710)

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NOTE 8 CAPITAL LEASE PAYABLE

The District has entered into lease agreements as lessee for financing 11 buses valued at \$1,082,346. The estimated life for a bus is 8 years. This year, \$116,048 was included in depreciation expense. These lease agreements qualify as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2019, are as follows:

Year Ending June 30	Amount
2020	\$ 183,432
2021	145,720
2022	85,569
2023	<u>64,722</u>
Total Minimum Lease Payments	479,443
Less: Amount Representing Interest	<u>(30,547)</u>
Present Value of Minimum Lease Payments	<u>\$ 448,896</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	1,400,000		1,400,000		
GO Building Bond	40,410,000		1,980,000	38,430,000	2,180,000
GO Refunding Bonds	11,265,000			11,265,000	205,000
Unamortized Discount	(292,396)		(28,545)	(263,851)	(28,545)
Unamortized Premium	128,271		14,287	113,984	14,287
Total Bonds	<u>59,000,333</u>		<u>3,365,742</u>	<u>55,634,591</u>	<u>2,370,742</u>
Energy Service Payable	593,347		149,353	443,994	155,717
Capital Lease Payable	365,759	301,888	218,751	448,896	169,280
Accrued Interest Payable	1,219,921	276,730		1,496,651	
Severance Payable	53,426	2,738	16,309	39,855	7,724
Total Long-Term Liabilities	<u>\$ 61,232,786</u>	<u>\$ 581,356</u>	<u>\$ 3,750,155</u>	<u>\$ 58,063,987</u>	<u>\$ 2,703,463</u>

The District's interest expense for the year ended June 30, 2019, was \$1,897,276.

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

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Component Unit:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Payable	\$ 27,800,000	\$	\$	\$ 27,800,000	\$ 400,000
Unamortized bond issuance costs	(381,398)		(113,305)	(268,093)	
Total Component Unit	\$ 27,418,602	\$	\$ (113,305)	\$ 27,531,907	\$ 400,000

The TRF EDA's interest expense for the year ended June 30, 2019 was \$278,000. The notes are secured by the project.

A. General Obligation Bonds

<u>Description</u>	<u>Date of Issue</u>	<u>Net Interest Rate</u>	<u>Maturity Dates</u>	<u>Original Amount</u>	<u>Current Year Retired</u>	<u>Balance 6/30/2019</u>
Capital Appreciation Bond	2013	3.5-4.1%	2026/31	\$ 6,089,458	\$	\$ 6,089,458
Taxable OPEB Bond	2009			2,410,000	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%	2020/25	21,500,000	1,880,000	14,500,000
Building Bond Series C	2012	3.0%	2020/26	7,775,000	100,000	5,315,000
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>\$ 55,784,458</u>

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 2,385,000	\$ 1,509,906
2021	2,600,000	1,457,302
2022	12,115,000	1,393,745
2023	3,155,000	948,996
2024	3,410,000	862,966
2025-2029	18,464,978	5,543,053
2030-2033	13,654,480	2,894,780
	<u>\$ 55,784,458</u>	<u>\$ 14,610,748</u>

B. Energy Service Payable

<u>Description</u>	<u>Date of Issue</u>	<u>Net Interest Rate</u>	<u>Maturity Dates</u>	<u>Original Amount</u>	<u>Current Year Retired</u>	<u>Balance 6/30/2019</u>
Energy Service Loan	2006	4.20%	2020/22	\$ 2,036,359	\$ 149,353	\$ 443,994

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Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2020	\$ 155,717	\$ 15,612
2021	162,352	8,978
2022	125,925	2,571
	<u>\$ 443,994</u>	<u>\$ 27,161</u>

C. Notes Payable

Component Unit: Description	Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2019
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%	2020/37	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
2020	\$ 400,000
2021	20,430,270
2022	424,090
2023	428,347
2024	432,646
Thereafter	5,684,647
	<u>\$ 27,800,000</u>

D. Crossover Refunding

During 2017, the District issued \$9,965,000 in general obligation refunding bonds with interest rates ranging between 3.3 to 4.0%. 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

The District will realize a savings of \$733,955, with a present value of \$576,094.

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NOTE 10 INTERFUND TRANSFERS

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$26,959

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

NOTE 11 OPERATING LEASES

The District has an agreement with the City of Thief River Falls whereby the District agrees to lease the City's facilities. Payments under this lease agreement made by the District during the year ended June 30, 2019, totaled \$127,713. 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, 2019, the estimated liability under these plans was \$39,855.

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, 2019.

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, 2019:

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A. Ground Lease

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

B. Lease

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

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

Year Ending	
June 30	Amount
2020	\$ 846,396
2021	2,431,536
2022	2,468,010
2023	2,517,368
2024	2,567,715
Thereafter	<u>39,283,323</u>
	<u>\$ 50,114,348</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.

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NOTE 17 COMMITTED CONTRACTS

Primary Government

As of June 30, 2019, the District had commitments in the General Fund of \$202,841 for construction.

NOTE 18 NEW PRONOUNCEMENTS

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

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

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

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

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2019

voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

NOTE 19 SUBSEQUENT EVENT

On May 10, 2012, the Thief River Falls Economic Development Association, LLC was formed and has been disclosed as a discretely presented component unit in the District's Audited Financial Statements. On September 13, 2019, the put call agreement was exercised to initiate the unwind of the Thief River Falls Economic Development Association, LLC. The District is in the process of completely dissolving the entity and terminate agreements that were in place.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Property Tax Levies	\$ 2,681,000	\$ 2,695,393	\$ 2,723,870	\$ 28,477
Other Local & County Revenues	660,724	951,138	1,207,117	255,979
Revenue From State Sources	18,347,451	18,693,330	18,754,624	61,294
Revenue From Federal Sources	835,639	915,552	892,961	(22,591)
Sale/Other Conversion of Asset	6,200	58,200	3,176	(55,024)
TOTAL REVENUES	<u>22,531,014</u>	<u>23,313,613</u>	<u>23,581,748</u>	<u>268,135</u>
EXPENDITURES				
Current				
Administration	1,588,694	1,590,528	1,539,978	(50,550)
District Support Services	588,280	585,290	574,405	(10,885)
Elementary & Secondary				
Regular Instruction	9,634,371	9,493,888	9,346,613	(147,275)
Vocational Education Instruction	549,589	548,306	544,741	(3,565)
Special Education Instruction	3,652,369	3,671,891	3,632,650	(39,241)
Instructional Support Services	1,032,111	1,098,401	1,231,110	132,709
Pupil Support Services	1,497,961	1,516,974	1,479,431	(37,543)
Sites and Buildings	2,654,211	2,643,652	2,593,105	(50,547)
Fixed Costs	165,025	171,000	120,353	(50,647)
Debt Service				
Principal	368,103	368,103	368,103	
Interest	31,700	31,700	31,700	
Capital Outlay	1,047,922	2,744,922	2,446,893	(298,029)
TOTAL EXPENDITURES	<u>22,810,336</u>	<u>24,464,655</u>	<u>23,909,082</u>	<u>(555,573)</u>
Revenues Over (Under) Expenditures	(279,322)	(1,151,042)	(327,334)	823,708
OTHER FINANCING SOURCES (USES)				
Debt Issued			301,888	301,888
Transfer Out	(28,000)	(28,000)	(26,959)	1,041
TOTAL OTHER FINANCING SOURCES (USES)	<u>(28,000)</u>	<u>(28,000)</u>	<u>274,929</u>	<u>302,929</u>
Net Change in Fund Balances	(307,322)	(1,179,042)	(52,405)	1,126,637
Fund Balances - Beginning	6,339,322	6,339,322	6,339,322	
Fund Balances - Ending	<u>\$ 6,032,000</u>	<u>\$ 5,160,280</u>	<u>\$ 6,286,917</u>	<u>\$ 1,126,637</u>

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 CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS**

	2017	2018	2019
Total OPEB Liability			
Service Cost	\$ 197,265	\$ 190,780	\$ 136,417
Interest	94,723	93,635	104,547
Assumption Changes		(67,610)	30,284
Plan Changes			34,354
Differences Between Expected and Actual Experience			(820,545)
Benefit Payments	(374,435)	(273,548)	(205,108)
Net Change in Total OPEB Liability	(82,447)	(56,743)	(720,051)
Total OPEB Liability - Beginning	3,371,614	3,289,167	3,232,424
Total OPEB Liability Ending (a)	<u>\$ 3,289,167</u>	<u>\$ 3,232,424</u>	<u>\$ 2,512,373</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 205,581	\$ 160,062	\$ 133,943
Projected Investment Return	13,218	17,739	37,762
Differences Between Expected and Actual Experience		(9,841)	(29,409)
Benefit Payments	(374,435)	(273,548)	(205,108)
Administrative Expenses	(250)	(250)	(250)
Net Change in Plan Fiduciary Net Position	(155,886)	(105,838)	(63,062)
Plan Fiduciary Net Position - Beginning	1,520,449	1,364,563	1,258,725
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,364,563</u>	<u>\$ 1,258,725</u>	<u>\$ 1,195,663</u>
District's Net OPEB Liability - Ending (a) - (b)	<u>\$ 1,924,604</u>	<u>\$ 1,973,699</u>	<u>\$ 1,316,710</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	41.49%	38.94%	47.59%
Covered Payroll	\$ 13,281,098	\$ 13,679,531	\$ 13,720,751
District's Net OPEB Liability as a Percentage of Covered Payroll	14.49%	14.43%	9.60%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2017. Information from 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
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
	2019	341,749	341,749		4,556,651	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
	2019	763,227	763,227		9,898,648	7.71

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>District's 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
2018	0.0688	3,816,742	125,272	3,942,014	4,616,820	82.67	79.53
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
2018	0.1753	11,010,590	1,034,630	12,045,220	9,685,923	113.68	78.07

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

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

The notes to 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, 2019**

NOTE 1 BUDGETARY DATA

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

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

NOTE 2 DEFINED BENEFIT PLANS

PERA

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

TRA

Changes in Actuarial Assumptions Since the 2016 Valuation:

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

Changes in actuarial assumptions since the 2017 valuation:

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payment and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

For the fiscal year ending June 30, 2018

Assumption Changes:

- The discount rate was changed from 2.80% to 3.20%

For the fiscal year ending June 30, 2019

Benefit Changes:

- A post-employment subsidized medical benefit was added for the Payroll and Benefits Director and the Personnel Director. The benefit is a lump sum equal to years of service times the daily rate of pay paid as a lump sum to VEBA.

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The expected long-term investment return was changed from 1.30% to 3.00%.
- The discount rate was changed from 3.20% to 3.10%.

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2019

	Special Revenue Funds			Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund	OPEB Debt Service		
ASSETS						
Cash and Investments	\$ 330,347	\$ 340,727	\$ 27,238	\$ 185,178	\$ 32,804	\$ 916,294
Investment with Fiscal Agent						
Current Property Taxes Receivable		69,140		92,883		162,023
Delinquent Property Taxes Receivable		6,661		7,704		14,365
Accounts Receivable	1,218	20,745				21,963
Due From Department of Education		19,908		703		20,611
Due From Federal Govt. - DOE	30,284					30,284
Inventory	60,861					60,861
TOTAL ASSETS	\$ 422,710	\$ 457,181	\$ 27,238	\$ 286,468	\$ 32,804	\$ 1,226,401
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 5,691	\$ 2,739	\$	\$	\$	\$ 8,430
Payroll Deductions	9,124	33,219				42,343
TOTAL LIABILITIES	14,815	35,958				50,773
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue - Delinquent Taxes		6,661		7,704		14,365
Property Taxes Levied - Subs. Years		168,650		226,646		395,296
TOTAL DEFERRED INFLOWS OF RESOURCES		175,311		234,350		409,661
FUND BALANCES						
Fund Balance:						
Nonspendable: Inventory	60,861					60,861
Nonspendable: Scholarships					25,000	25,000
Restricted for Food Service	347,034					347,034
Restricted for School Readiness		58,386				58,386
Restricted for Community Education		127,508				127,508
Restricted for ECFE		42,051				42,051
Restricted for Community Service		17,967				17,967
Restricted for OPEB Debt Service				52,118		52,118
Restricted for Scholarships					7,804	7,804
Restricted for District Programs			27,238			27,238
TOTAL FUND BALANCES	407,895	245,912	27,238	52,118	32,804	765,967
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 422,710	\$ 457,181	\$ 27,238	\$ 286,468	\$ 32,804	\$ 1,226,401

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, 2019

	Special Revenue Funds			Capital Project	Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Gifts & Fundraising Fund		OPEB Debt Service		
REVENUES							
Local Property Tax Levies	\$	\$ 161,292	\$	\$	\$ 229,353	\$	\$ 390,645
Other Local & County Revenues	17,533	509,188	5,260		23,043	704	555,728
Revenue From State Sources	66,842	188,538			7,025		262,405
Revenue From Federal Sources	592,839						592,839
Sale/Other Conversion of Asset	514,031	2,832					516,863
TOTAL REVENUES	1,191,245	861,850	5,260		259,421	704	2,318,480
EXPENDITURES							
Current							
Elementary & Secondary							
Regular Instruction			8,029			400	8,429
Community Education and Services		811,350					811,350
Pupil Support Services	1,153,191						1,153,191
Debt Service							
Principal					1,400,000		1,400,000
Interest and Other Fees					92,868		92,868
Capital Outlay	31,876	3,927		78,389			114,192
TOTAL EXPENDITURES	1,185,067	815,277	8,029	78,389	1,492,868	400	3,580,030
Revenues Over (Under) Expenditures	6,178	46,573	(2,769)	(78,389)	(1,233,447)	304	(1,261,550)
OTHER FINANCING SOURCES							
Transfer In		26,959					26,959
TOTAL OTHER FINANCING SOURCES		26,959					26,959
Net Change in Fund Balances	6,178	73,532	(2,769)	(78,389)	(1,233,447)	304	(1,234,591)
Fund Balances - Beginning	401,717	172,380	30,007	78,389	1,285,565	32,500	2,000,558
Fund Balances - Ending	\$ 407,895	\$ 245,912	\$ 27,238	\$	\$ 52,118	\$ 32,804	\$ 765,967

INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
For the Year Ended June 30, 2019

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Debt Issued, Net	UFARS Balance End of Year
Governmental Funds						
General Fund						
Nonspendable	\$ 77,810	\$	\$	\$ 111,163	\$	\$ 188,973
Restricted for:						
Health and Safety	15,042			(15,042)		
Safe Schools						
Long Term Facility Maintenance	175,484	839,841	688,841			326,484
Operating Capital	892,502	307,243	694,862		301,888	806,771
Medical Assistance	52,843			(4,042)		48,801
Committed: Severance	53,426			(13,571)		39,855
Assigned for Technology	1,362,239			150,489		1,512,728
Assigned for Building Trades	44,747			5,000		49,747
Unassigned	3,665,229	22,434,664	22,525,379	(260,956)		3,313,558
Food Service Fund						
Nonspendable	46,477			14,384		60,861
Restricted: Food Service	355,240	1,191,245	1,185,067	(14,384)		347,034
Community Service Fund						
Restricted for:						
Community Education	84,580	448,122	427,153	21,959		127,508
ECFE	40,507	135,841	134,297			42,051
School Readiness	24,059	257,821	228,494	5,000		58,386
Community Service	23,234	20,066	25,333			17,967
Capital Project Fund						
Nonspendable	78,389		78,389			
Gifts & Fundraising Fund						
Restricted: District Programs	30,007	5,260	8,029			27,238
Debt Service Fund						
Restricted for:						
Bond Refunding	9,249,601			237,391		9,486,992
Debt Service	714,852	3,783,409	3,510,099	(237,391)		750,771
OPEB Debt Service Fund						
Restricted for:						
Bond Refunding	1,230,480			(1,230,480)		
OPEB Debt Service	55,085	259,421	1,492,868	1,230,480		52,118
Permanent Fund						
Nonspendable	25,000					25,000
Restricted: Scholarships	7,500	704	400			7,804
Fiduciary Fund						
OPEB Trust Fund						
Held in Trust for OPEB	1,258,725	8,102	71,165			1,195,662

**INDEPENDENT SCHOOL DISTRICT NO. 564
 THIEF RIVER FALLS, MINNESOTA
 GIFTS & FUNDRAISING FUND SCHEDULE
 For the Year Ended June 30, 2019**

	<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	\$ 5,258	\$ 514	\$ 5,188	\$ 19,047	\$ 30,007
REVENUES					
Interest Earned	104		75	411	590
Gifts and Fundraising	<u> </u>	<u> </u>	<u>4,000</u>	<u>670</u>	<u>4,670</u>
TOTAL REVENUES	<u>104</u>	<u> </u>	<u>4,075</u>	<u>1,081</u>	<u>5,260</u>
EXPENDITURES					
Supplies		514		2,515	3,029
Scholarships	<u>1,000</u>	<u> </u>	<u>4,000</u>	<u> </u>	<u>5,000</u>
TOTAL EXPENDITURES	<u>1,000</u>	<u>514</u>	<u>4,000</u>	<u>2,515</u>	<u>8,029</u>
FUND BALANCE - June 30	<u>\$ 4,362</u>	<u>\$</u>	<u>\$ 5,263</u>	<u>\$ 17,613</u>	<u>\$ 27,238</u>

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, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2019. Our report includes a reference to other auditors who audited the financial statements for the Thief River Falls Economic Development Association, LLC, as described in our report on Independent School District No. 564's financial statements. The financial statements of the Thief River Falls Economic Development Association, LLC were not audited in accordance with the *Minnesota Legal Compliance Audit Guide for School Districts*.

Legal Compliance

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

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

Purpose of the Report

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



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

October 18, 2019

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**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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2019. Our report includes a reference to other auditors who audited the financial statements for the Thief River Falls Economic Development Association, LLC, as described in our report on Independent School District No. 564's financial statements. The financial statements of the Thief River Falls Economic Development Association, LLC were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



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

October 18, 2019

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

To the Board of 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, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is disclosed in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Independent School District No. 564's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 564's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

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

October 18, 2019

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**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019**

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	\$ 23,330
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	57,982
Title I	84.010	284,026
Special Education - Infants and Toddlers	84.181	15,544
<i>Special Education Cluster:</i>		
IDEA Part B 611	84.027	492,209
Preschool Incentives	84.173	14,675
<i>Total Special Education Cluster</i>		<u>506,884</u>
Passed-Through Pine to Prairie Cooperative:		
Carl Perkins	84.048A	5,195
Total Indirect		<u>869,631</u>
Total U.S. Department of Education		<u>892,961</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	92,848
National School Lunch Program	10.555	340,415
After School Snacks	10.555	3,537
Commodity Distribution (Nonmonetary Assistance)	10.555	89,560
Summer Food Program	10.559	66,479
<i>Total Child Nutrition Cluster</i>		<u>592,839</u>
Total U.S. Department of Agriculture		<u>592,839</u>
TOTAL FEDERAL AWARDS		\$ <u>1,485,800</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, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (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, 2019. 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 4 COMMODITY DISTRIBUTION

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

NOTE 5 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 6 SUBRECIPIENTS

During 2019, 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, 2019**

Section I-Summary of Auditor's Results

Financial Statements

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

Noncompliance material to financial statements noted? ___ yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? ___ yes x no
 Significant deficiency(s) identified? x 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)? x yes ___ no

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? x yes ___ no

Section II-Financial Statement Findings

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019**

Section III- Federal Award Findings and Questioned Costs

2019-001 FINDING

Child Nutrition Cluster (School Breakfast Program, CFDA No. 10.553; National School Lunch Program, CFDA No. 10.555; After School Snacks, CFDA No. 10.555; Commodity Distribution, CFDA No. 10.555; Summer Food Service Program for Children, CFDA no. 10.559)

Criteria

According to CFR Statue 210.7(c): to receive reimbursement payment for meals served, the District must submit the number of meals served and all claims must be supported by accurate meal counts by category and type.

Condition

One instance was identified where a student received free meals, but the income on the application showed that the student qualified for only reduced meals.

Questioned Costs

Undeterminable

Context

A sample of 40 applications were selected for audit from a population of 791 free and reduced applications. There was an error on one application. The household income on this application was not properly calculated. As a result, the student was incorrectly determined to be eligible for free but should have been reduced.

Cause

The District does not have sufficient procedures in place to ensure all information is entered correctly from the application in to the software.

Effect

The District reported free meals for reimbursement instead of reduced meals.

Repeat Finding

No

Recommendation

The District should review their policies and procedures for calculating eligibility.

Views of the Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will correct immediately.

Section IV- Minnesota Legal Compliance Findings

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

**INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2019**

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.

Corrective Action Taken

The District has improved procedures and has obtained performance and payment bonds when required.



THIEF RIVER FALLS PUBLIC SCHOOLS

Board of Education
Wayne Nomeland, Chairperson
Misty Hempel, Vice-Chair
Chris Melbye, Treasurer
Craig Mattson, Clerk

Independent School District #564
230 LaBree Avenue South
Thief River Falls, MN 56701
Bradley D. Bergstrom, Superintendent
(218) 681-8711 ext. 5226

Board of Education
Mike Spears, Director
Ryan Walseth, Director
Michelle Westerman, Director

MISSION: *A District committed to developing successful learners through relevant education and purposeful community partnerships.*

CORE VALUES: *Excellence • Integrity • Accountability • Respect • Community • Partnership*

Corrective Action Plan for the Year Ending June 30, 2019

2019-001 Finding – Eligibility

Contact Person: Cindy Sanden, Food Services Director, is in charge of implementation of this Corrective Action Plan.

Corrective Action Plan: The School District has developed written detailed procedures for processing free and reduced lunch applications. This process includes a second reviewer, who verifies all information, including recalculating household income.

Explanation of Disagreement: None

Completion Date: Immediately

Monitor Plan: The Business Manager will randomly select ten free and reduced applications each school year, verifying it for completeness and accuracy.

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, 2019, 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, 2019, and the cash balances at that date, in accordance with the cash basis of accounting as described in Note 1.

Basis of Accounting

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



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

October 18, 2019

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**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, 2019**

	Fund Balance 6-30-18	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-19
<u>Lincoln High School</u>					
Area Learning Center	\$ 169	\$	\$ 50	\$ (119)	\$
Art	288		44	(244)	
Band	1,221	69,558	68,564		2,215
Baseball Fundraising	6,767	8,210	11,750		3,227
Biology	2,267	2,336	4,769	166	
Boys Basketball	990	6,741	3,965		3,766
Boys Golf	34			(34)	
Boys Swimming	189	2,122	1,779		532
Boys Tennis	458	3,199	1,727		1,930
Class of 2019	2,924	1,930	4,807	(47)	
Class of 2020	2,411				2,411
Class of 2021	1,497	2,548	1,081	200	3,164
Class of 2022		1,998	1,105	200	1,093
Close Up	930	420	222	(148)	980
Community Action Club	146	766	618		294
Drama	2,138	3,110	3,238		2,010
Envirothon	123	1,200	1,194		129
F.F.A.	7,533	21,276	22,984		5,825
Football	7,368	21,700	21,555		7,513
German Club	907	9,848	9,456		1,299
Girls Basketball Fundraising	2,723	7,528	6,576		3,675
Girls Golf Fundraising	1,166	4,340	2,810	148	2,844
Girls Hockey Fundraising	3,268	15,016	12,444	600	6,440
Girls Swimming Fundraising	8,575	11,109	11,693		7,991
Girls Tennis	161	4,990	5,151		
Interest	48	422			470
Math Counts	193		30		163
Math League	900	300	209		991
Miles Club	22	4,542	4,418		146
Multicultural Student Services	268			(268)	
National Honor Society	2,408	7,129	5,548		3,989
Orchestra	1,618	700	2,043		275
Prom	969	8,826	8,559		1,236
Prowler Advertising	6,133	13,154	10,467	(1,090)	7,730
Prowler Pantry		5,519	5,759	458	218
Prowler Potential	2,693	339	1,481	98	1,649
Retail Lab	301	312	787	490	316
Robotics	618	2,751	2,327		1,042
Special Student Activities	875	313	1,378	190	
Special Olympics	2,163	700	1,100		1,763
Speech	96	1,365	1,458		3

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, 2019

	Fund Balance 6-30-18	Receipts	Disbursements	Transfers In (Out)	Fund Balance 6-30-19
<u>Lincoln High School (Continued)</u>					
Student Senate	957	8,087	4,160	(600)	4,284
Track Fundraising	774	10,717	3,746		7,745
Weight Room	2,779	7,640	3,799		6,620
Wrestling Fundraising	447	2,517	1,098		1,866
Volleyball	23	9,477	8,405		1,095
Yearbook	2,092	2,640	3,584		1,148
Total Lincoln High School	80,630	287,395	267,938		100,087
<u>Franklin Middle School</u>					
Activity Day	671	4,111	1,067	(208)	3,507
Book Fair	58	3,343	4,270	1,012	143
Class of 2022	1,671		1,671		
Class of 2023	12,826	2,905	16,515	1,232	448
Class of 2024	6,039		5,296	706	1,449
Class of 2025		17,748	24,694	13,322	6,376
Geckler	640	47,617	27,174	(20,203)	880
Jazz Band	227	14,034	13,030	3	1,234
Prowler Plus	11,229	1,845	1,670	54	11,458
School Store	6,913		476	32	6,469
Science Fair		219	163		56
Student Council	258	886	2,240	3,005	1,909
Turn Around	5,980	162	1,447	1,028	5,723
Yearbook	2,859	3,880	2,511	17	4,245
Total Franklin Middle School	49,371	96,750	102,224		43,897
<u>Challenger Elementary School</u>					
Deep Portage	13,958	53,756	56,350		11,364
Kindergarten Parties	307	461	335		433
Readathon	495	4,802	4,405		892
PE Activities	496				496
School Store	1,374	3,261	2,897		1,738
Total Challenger Elementary School	16,630	62,280	63,987		14,923
Total All Funds	\$ 146,631	\$ 446,425	\$ 434,149	\$	\$ 158,907

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, 2019**

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.

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, 2019, and the related note to the financial statement, and have issued our report thereon dated October 18, 2019, 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*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

Purpose of the Report

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



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

October 18, 2019

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INDEPENDENT SCHOOL DISTRICT NO. 564
THIEF RIVER FALLS, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2019

District Name:	INDEPENDENT SCHOOL DISTRICT NO. 564			District Number:	564		
	Audit	UFARS	Variance		Audit	UFARS	Variance
<u>01 GENERAL FUND</u>				<u>06 BUILDING CONSTRUCTION</u>			
Total Revenue	23,581,748	23,581,750	(2)	Total Revenue			
Total Expenditures	23,909,082	23,909,080	2	Total Expenditures	78,389	78,389	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	188,973	188,973		460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development				407 Capital Projects Levy			
406 Health & Safety				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	78,389	78,389	
424 Operating Capital	806,771	806,771					
426 \$25 Taconite				<u>07 DEBT SERVICE</u>			
427 Disabled Accessibility				Total Revenue	3,783,409	3,783,409	
428 Learning & Development				Total Expenditures	3,510,099	3,510,099	
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	9,486,992	9,486,992	
440 Teacher Development and Eval.				451 QZAB Payments			
441 Basic Skills Programs				<i>Restricted</i>			
445 Career and Technical Programs				464 Restricted Fund Balance	750,771	750,771	
449 Safe Schools Levy				<i>Unassigned:</i>			
451 QZAB Payments				463 Unassigned Fund Balance			
452 OPEB Liab Not In Trust				Reconciliation of Debt Service	17,531,271	17,531,271	
453 Unfunded Sev & Retirement Levy							
467 Long Term Facilities Maintenance	326,484	326,484		<u>08 TRUST</u>			
472 Medical Assistance	48,801	48,801		Total Revenue	5,964	5,963	1
<i>Restricted</i>				Total Expenditures	8,429	8,429	
464 Restricted Fund Balance				<i>Unassigned:</i>			
<i>Committed</i>				422 Unassigned Fund Balance	60,042	60,041	1
418 Committed for Separation	39,855	39,855		Reconciliation of Trust	74,435	74,433	2
461 Committed							
<i>Assigned</i>				<u>20 INTERNAL SERVICE</u>			
462 Assigned Fund Balance	1,562,475	1,562,476	(1)	Total Revenue			
<i>Unassigned:</i>				Total Expenditures			
422 Unassigned Fund Balance	3,313,558	3,313,558		<i>Unassigned:</i>			
Reconciliation of General	53,777,747	53,777,748	(1)	422 Unassigned Fund Balance			
				Reconciliation of Internal Service			
<u>02 FOOD SERVICE</u>							
Total Revenue	1,191,245	1,191,246	(1)	<u>25 OPEB REVOCABLE TRUST FUND</u>			
Total Expenditures	1,185,067	1,185,067		Total Revenue			
<i>Non Spendable</i>				Total Expenditures			
460 Non Spendable Fund Balance	60,861	60,860	1	<i>Unassigned:</i>			
<i>Restricted/Reserved:</i>				422 Unassigned Fund Balance			
452 OPEB Liab Not In Trust				Reconciliation of OPEB Revocable Trust			
<i>Restricted</i>							
464 Restricted Fund Balance	347,034	347,035	(1)	<u>45 OPEB IRREVOCABLE TRUST FUND</u>			
<i>Unassigned</i>				Total Revenue	8,102	8,102	
463 Unassigned Fund Balance				Total Expenditures	71,165	71,165	
Reconciliation of Food Service	2,784,207	2,784,208	(1)	<i>Unassigned:</i>			
				422 Unassigned Fund Balance	1,195,662	1,195,663	(1)
<u>04 COMMUNITY SERVICE</u>				Reconciliation of OPEB Irrevocable Trust	1,274,929	1,274,930	(1)
Total Revenue	861,850	861,851	(1)				
Total Expenditures	815,277	815,277		<u>47 OPEB DEBT SERVICE FUND</u>			
<i>Non Spendable</i>				Total Revenue	259,421	259,420	1
460 Non Spendable Fund Balance				Total Expenditures	1,492,868	1,492,868	
<i>Restricted/Reserved:</i>				<i>Non Spendable</i>			
426 \$25 Taconite				460 Non Spendable Fund Balance			
431 Community Education	127,508	127,509	(1)	<i>Restricted</i>			
432 E.C.F.E.	42,051	42,051		425 Bond Refunding			
440 Teacher Development and Eval.				464 Restricted Fund Balance	52,118	52,117	1
444 School Readiness	58,386	58,386		<i>Unassigned</i>			
447 Adult Basic Education				463 Unassigned Fund Balance			
452 OPEB Liab Not In Trust				Reconciliation of OPEB Debt Service	1,804,407	1,804,405	2
<i>Restricted</i>							
464 Restricted Fund Balance	17,967	17,966	1				
<i>Unassigned</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	1,923,039	1,923,040	(1)				