

SPECIAL SCHOOL BOARD MEETING AGENDA

International Falls Public Schools, ISD #361
Tuesday, November 28, 2017 at 12:00 PM
FHS - Room 132B, 1515 11th Street, International Falls, MN
District Website: www.isd361.k12.mn.us

Mission Statement: *In partnership with parents and the community, the International Falls School District will prepare every student to become a productive citizen by developing their maximum potential within a safe climate of mutual respect and trust.*

Call to Order

1. Roll Call:

| | |
|----------------------------|--------------------|
| Mike Holden___ | Michelle Hebner___ |
| Toni Korpi___ | Heather McBride___ |
| Terry Murray___ | Ted Saxton___ |
| Roxanne Skogstad-Ditsch___ | Kevin Grover___ |

2. Pledge of Allegiance

Presentation

1. Presentation of June 30, 2017 Audit by Clifton, Larson and Allen. 2

Action Item

1. Approve the June 30, 2017 financial statements as presented. Motion by ____, seconded by ____ 18
____. Motion carried / failed.
2. Resolution authorizing the sale of bonds. Motion by ____, seconded by ____ 151
failed.

Adjournment

Moved by ____, seconded by ____ . Motion carried / failed.

International Falls Public Schools Independent School District No. 361

Executive Audit Summary (EAS)

June 30, 2017

November 28, 2017

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. | ©2017 CliftonLarsonAllen LLP

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



REQUIRED COMMUNICATIONS

- **Our Responsibility Under Generally Accepted Auditing Standards, *Government Auditing Standards*, and Uniform Guidance**
 - Primary responsibility is to provide our opinion on the fairness of presentation of financial statements
 - Reviewed internal accounting controls
 - Risk based audit approach
 - Based on internal controls, determined scopes and tests of transactions
 - Expressed opinion based on tests
 - Review internal controls and compliance – federal awards
- **Planned Scope and Timing of the Audit**
 - Communicated during the audit preliminary work and field work
- **Significant Accounting Policies**
 - Outlined in Note 1 to the financial statements
 - Unusual transactions – none noted
 - New standards – None noted



REQUIRED COMMUNICATIONS (Con't)

- **Management Judgments and Accounting Estimates – Reasonable/Supported**
 - Special Education Aid from State of Minnesota
 - Allowance for doubtful accounts
 - Useful lives of capital assets
 - Other Postemployment Benefits payable
 - Net Pension Liability & Related Deferred Inflows and Deferred Outflows of Resources
- **Disclosures are Adequate, Clear and Complete**
- **Other Information in Documents Containing Audited Financial Statements**
 - Required Supplementary Information - We made inquiries and evaluated the comparability – No opinion.
 - Supplementary Information – We made inquiries and evaluated the content - Opinion.
- **Disagreements with Management**
 - There have been no disagreements with management about matters that could be significant to the financial statements .
- **Consultations with Other Accountants**
 - There were no consultations with other independent accountants.

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REQUIRED COMMUNICATIONS (Con't)

- **Management Representations**
 - We have requested certain representations from management included in the management representation letter dated November 20, 2017.
- **Major Issues Discussed With Management Prior to Retention**
 - No issues, other than normal planning issues, were discussed prior to our retention as auditors.
- **Difficulties Encountered in Performing the Audit (None)**
 - Management was most cooperative and helpful.
 - Personnel and records were available.
- **Corrected and Uncorrected Misstatements of Financial Statements**
 - Uncorrected – None noted.
 - Corrected – None noted.

SUMMARY OF AUDIT RESULTS

- **Financial Statements**
 - Unmodified (“clean”) opinion
- **Internal Control Over Financial Reporting - *Government Auditing Standards***
 - Two material weaknesses in internal control were identified
 - ◇ Preparation of financial statements
 - ◇ Lack of segregation of duties
- **Compliance Reporting under *Government Auditing Standards***
 - None noted
- **Uniform Grant Guidance (Single Audit)**
 - Unmodified Opinion
 - Major programs - Child Nutrition and Title I
 - Two findings – Procurement and PARS report
- **Minnesota Legal Compliance**
 - None noted
- **Student Activities – Minnesota Legal Compliance**
 - Disbursements were not allowable



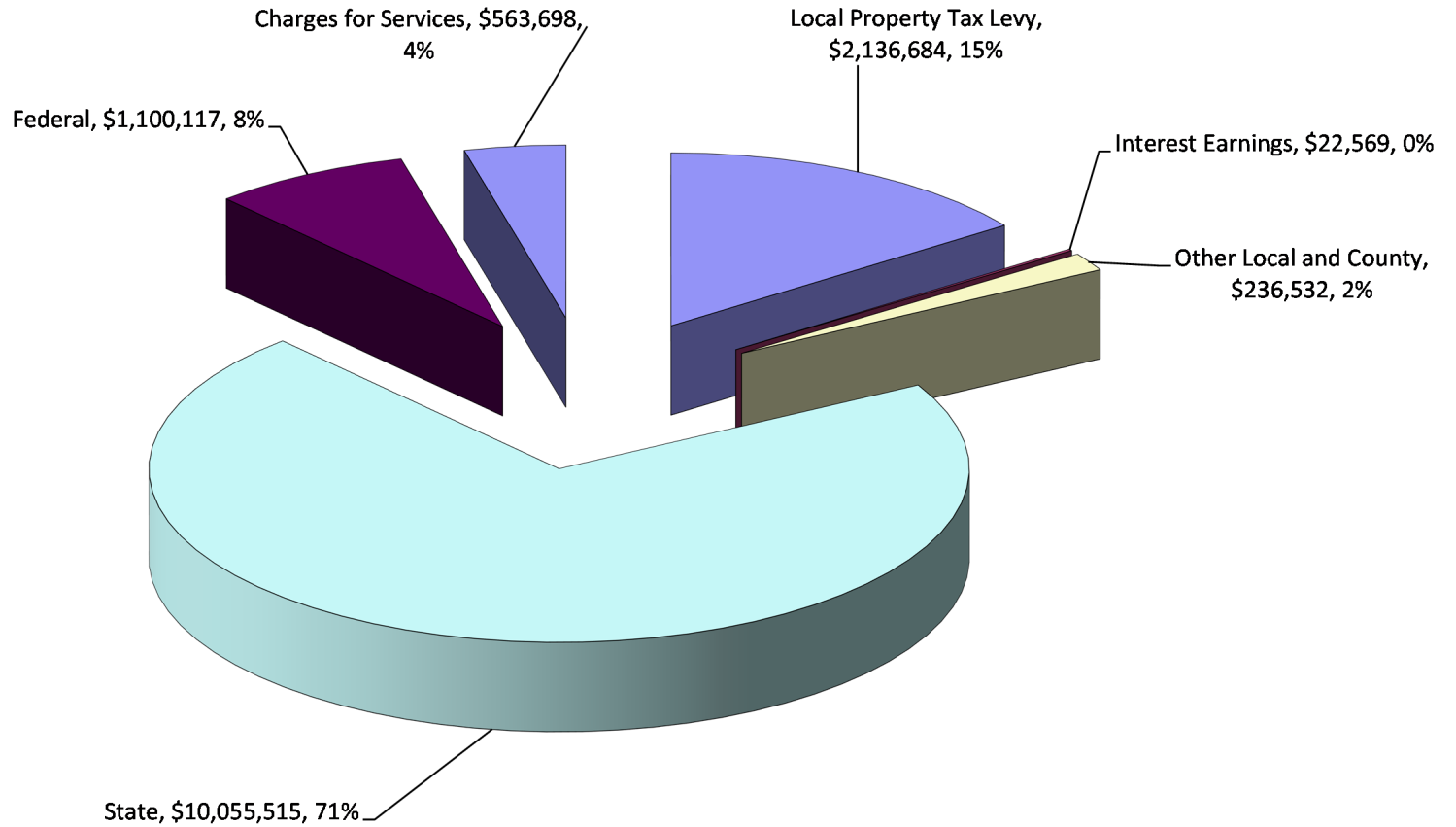
| Independent School District No. 361 | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Fund Trends | | | | | | |
| General Fund | | | | | | |
| For the Year Ended June 30, | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Total Revenues | \$ 13,010,617 | \$ 12,877,010 | \$ 12,542,429 | \$ 12,085,044 | \$ 12,438,983 | \$ 12,489,270 |
| Total Expenditures | 12,708,154 | 12,942,947 | 12,388,702 | 12,480,043 | 12,481,628 | 11,960,022 |
| Excess (Deficit) of Revenues Over (Under) | | | | | | |
| Expenditures | 302,463 | (65,937) | 153,727 | (394,999) | (42,645) | 529,248 |
| Other Financing Sources (Uses) | 11,088 | 3,100 | - | (20,500) | 402,859 | (10,800) |
| Net Change in Fund Balance | 313,551 | (62,837) | 153,727 | (415,499) | 360,214 | 518,448 |
| Fund Balance - Beginning | 3,534,555 | 3,597,392 | 3,443,665 | 3,859,164 | 3,498,950 | 2,980,502 |
| Unassigned Fund Balance | 3,053,425 | 2,820,544 | 2,700,991 | 2,589,536 | 3,323,744 | 2,801,621 |
| Nonspendable Fund Balance | 65,819 | 15,655 | 26,629 | 97,692 | 17,606 | - |
| Restricted Fund Balance | 632,592 | 638,392 | 802,018 | 612,593 | 359,528 | 545,810 |
| Committed Fund Balance | 6,190 | 4,124 | 2,764 | 93,826 | 108,851 | 112,655 |
| Assigned Fund Balance | 90,080 | 55,840 | 64,990 | 50,018 | 49,435 | 38,864 |
| Fund Balance - Ending | \$ 3,848,106 | \$ 3,534,555 | \$ 3,597,392 | \$ 3,443,665 | \$ 3,859,164 | \$ 3,498,950 |



| Food Service Fund | | | | | | |
|--|------------|------------|------------|------------|------------|------------|
| For the Year Ended June 30, | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Total Revenues | \$ 603,756 | \$ 598,688 | \$ 557,276 | \$ 537,301 | \$ 585,550 | \$ 580,591 |
| Total Expenditures | 575,306 | 570,047 | 541,674 | 561,208 | 640,252 | 600,495 |
| Excess (Deficit) of Revenues Over (Under) Expenditures | 28,450 | 28,641 | 15,602 | (23,907) | (54,702) | (19,904) |
| Other Financing Sources (Uses) | - | - | - | 20,500 | 56,340 | 13,500 |
| Net Change in Fund Balance | 28,450 | 28,641 | 15,602 | (3,407) | 1,638 | (6,404) |
| Fund Balance - Beginning | 49,180 | 20,539 | 4,937 | 8,344 | 6,706 | 13,110 |
| Nonspendable Fund Balance | 15,084 | 10,110 | 8,299 | 4,934 | 8,338 | 6,657 |
| Restricted Fund Balance | 62,546 | 39,070 | 12,240 | 3 | 6 | 49 |
| Fund Balance - Ending | \$ 77,630 | \$ 49,180 | \$ 20,539 | \$ 4,937 | \$ 8,344 | \$ 6,706 |
| Community Service Fund | | | | | | |
| For the Year Ended June 30, | 2016 | 2015 | 2014 | 2013 | 2012 | |
| Total Revenues | \$ 333,501 | \$ 332,358 | \$ 295,452 | \$ 342,038 | \$ 324,567 | \$ 332,536 |
| Total Expenditures | 315,501 | 342,569 | 305,349 | 353,358 | 314,762 | 326,173 |
| Excess (Deficit) of Revenues Over (Under) Expenditures | 18,000 | (10,211) | (9,897) | (11,320) | 9,805 | 6,363 |
| Other Financing Sources (Uses) | - | - | - | - | - | - |
| Net Change in Fund Balance | 18,000 | (10,211) | (9,897) | (11,320) | 9,805 | 6,363 |
| Restricted Fund Balance - Beginning | 14,741 | 24,952 | 34,849 | 46,169 | 36,364 | 30,001 |
| Restricted Fund Balance - Ending | \$ 32,741 | \$ 14,741 | \$ 24,952 | \$ 34,849 | \$ 46,169 | \$ 36,364 |

| Debt Service Fund | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| For the Year Ended June 30, | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Total Revenues | \$ 167,241 | \$ 161,594 | \$ 177,113 | \$ 172,688 | \$ 176,185 | \$ 170,749 |
| Total Expenditures | 163,963 | 161,363 | 163,763 | 166,163 | 168,563 | 175,558 |
| Excess (Deficit) of Revenues Over (Under) | | | | | | |
| Expenditures | 3,278 | 231 | 13,350 | 6,525 | 7,622 | (4,809) |
| Other Financing Sources (Uses) | - | - | - | - | - | - |
| Net Change in Fund Balance | 3,278 | 231 | 13,350 | 6,525 | 7,622 | (4,809) |
| Restricted Fund Balance - Beginning | 34,735 | 34,504 | 21,154 | 14,629 | 7,007 | 11,816 |
| Restricted Fund Balance - Ending | \$ 38,013 | \$ 34,735 | \$ 34,504 | \$ 21,154 | \$ 14,629 | \$ 7,007 |
| Capital Projects Fund | | | | | | |
| For the Year Ended June 30, | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Total Revenues | \$ - | \$ - | \$ - | \$ - | \$ 4,245 | \$ 2,954 |
| Total Expenditures | - | - | - | - | 641,020 | 759,062 |
| Excess (Deficit) of Revenues Over (Under) | | | | | | |
| Expenditures | - | - | - | - | (636,775) | (756,108) |
| Other Financing Sources (Uses) | - | - | - | - | - | - |
| Net Change in Fund Balance | - | - | - | - | (636,775) | (756,108) |
| Restricted Fund Balance | | | | | | |
| Restricted Fund Balance - Beginning | - | - | - | - | 636,775 | 1,392,883 |
| Restricted Fund Balance - Ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 636,775 |

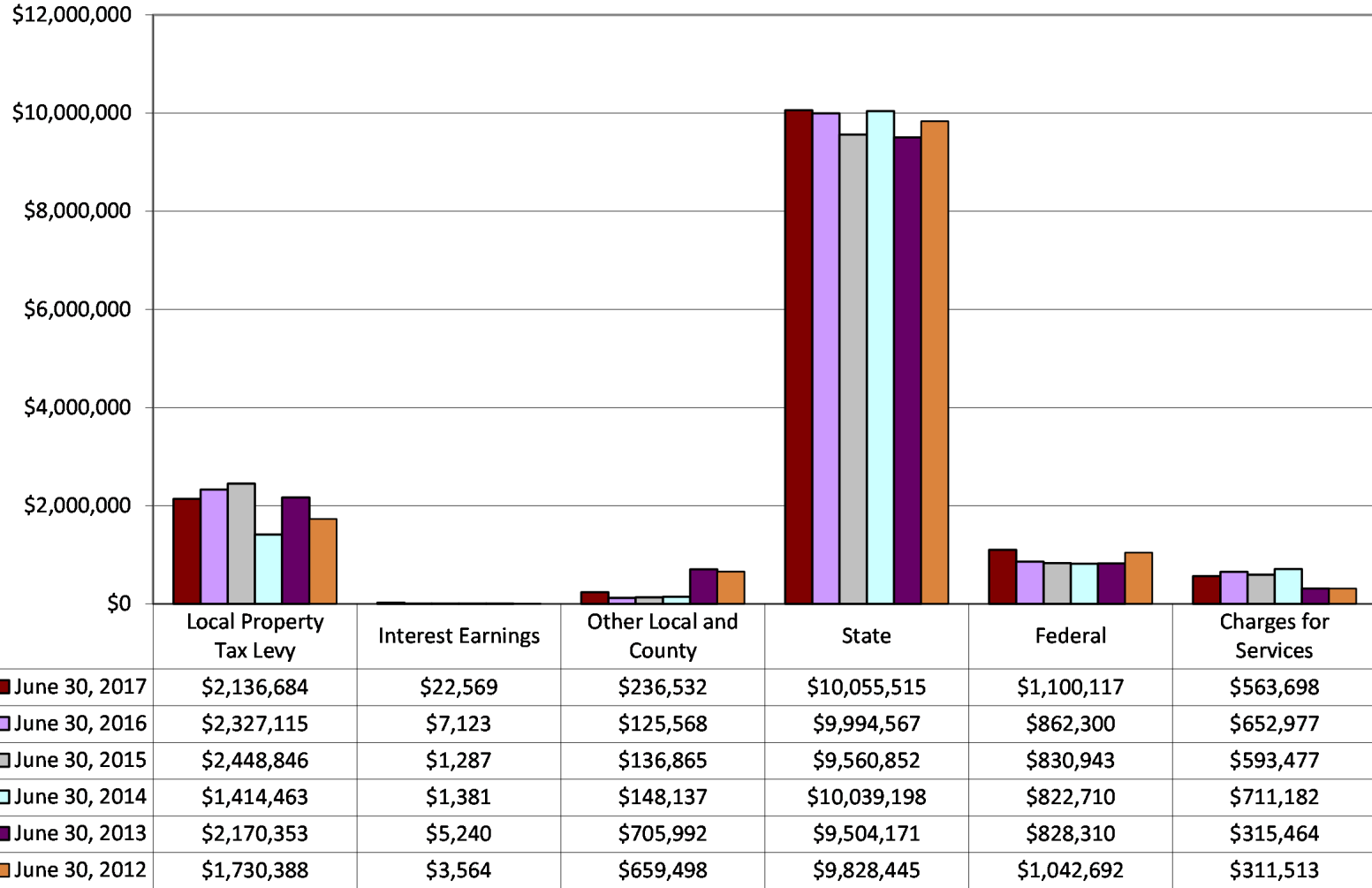
SOURCES OF REVENUES FOR INDEPENDENT SCHOOL DISTRICT NO. 361 FOR THE YEAR ENDED JUNE 30, 2017



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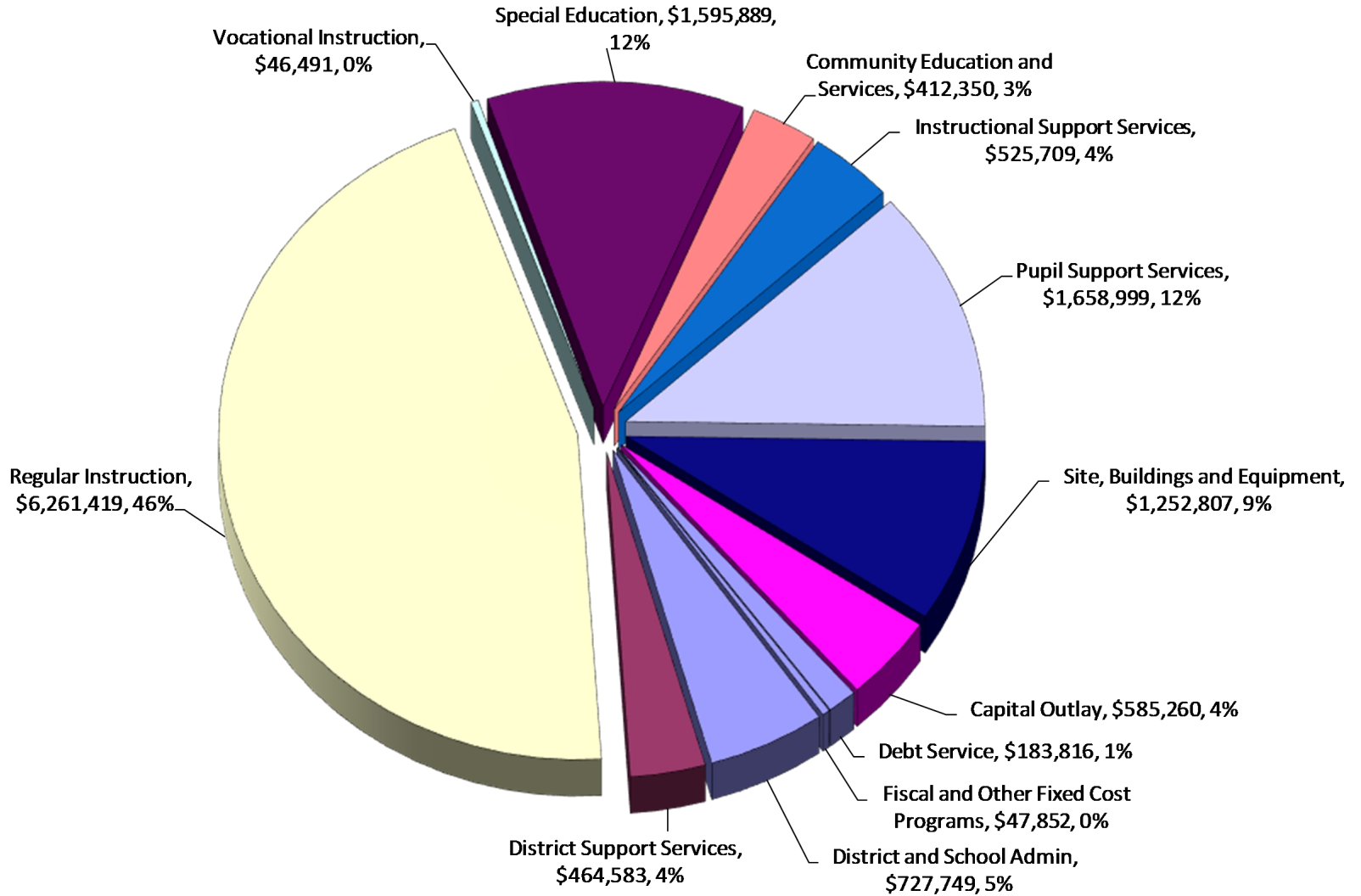
COMPARATIVE GOVERNMENTAL REVENUES OF INDEPENDENT SCHOOL DISTRICT NO. 361

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SOURCE OF REVENUES

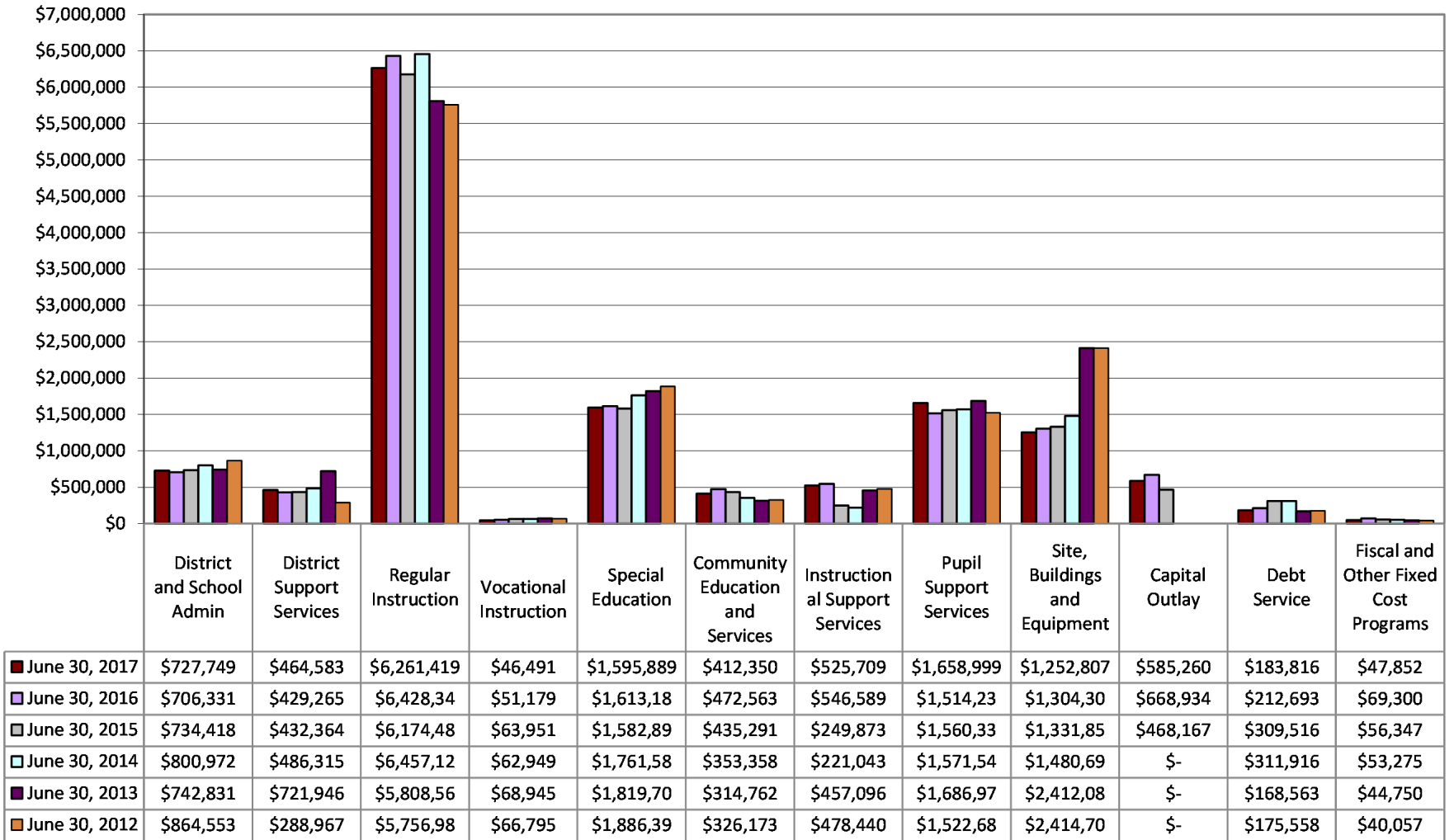
BREAKDOWN OF EXPENDITURES FOR INDEPENDENT SCHOOL DISTRICT NO. 361 FOR THE YEAR ENDED JUNE 30, 2017



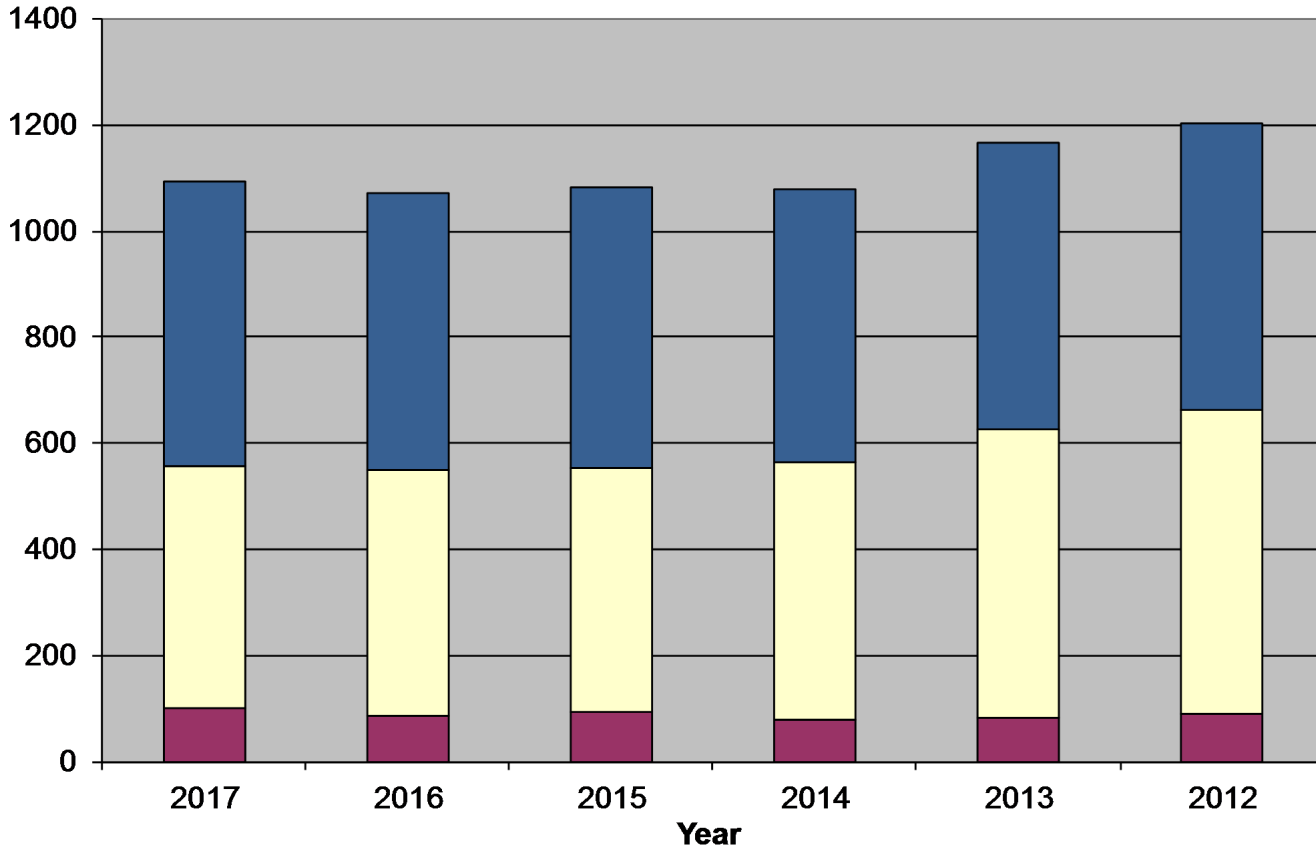
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COMPARATIVE EXPENDITURES FOR GOVERNMENTAL FUNDS OF INDEPENDENT SCHOOL DISTRICT NO. 361

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Average Daily Memberships



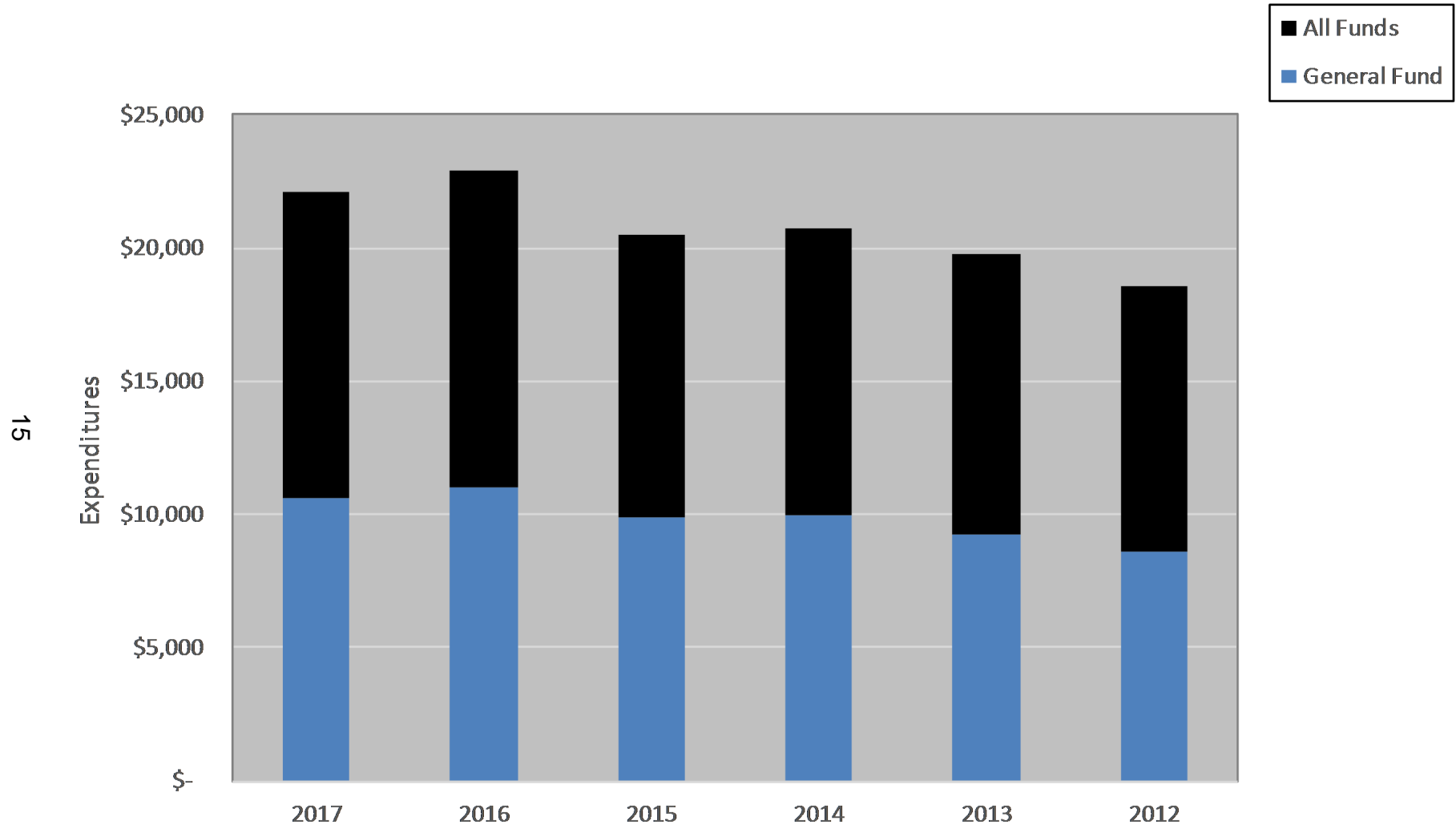
■ Kindergarten and Others □ Elementary ■ Secondary

| Resident Average Daily Membership (ADM) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Kindergarten and Others | 102.01 | 88.17 | 95.38 | 77.72 | 82.22 |
| Elementary | 455.14 | 460.79 | 459.87 | 488.13 | 542.64 |
| Secondary | 534.98 | 523.52 | 528.65 | 514.91 | 542.34 |
| Total Resident ADM | 1,092.13 | 1,072.48 | 1,083.90 | 1,080.76 | 1,167.20 |
| Total Adjusted Weighted ADM (WADM) | 1,199.13 | 1,177.18 | 1,255.76 | 1,255.58 | 1,352.31 |

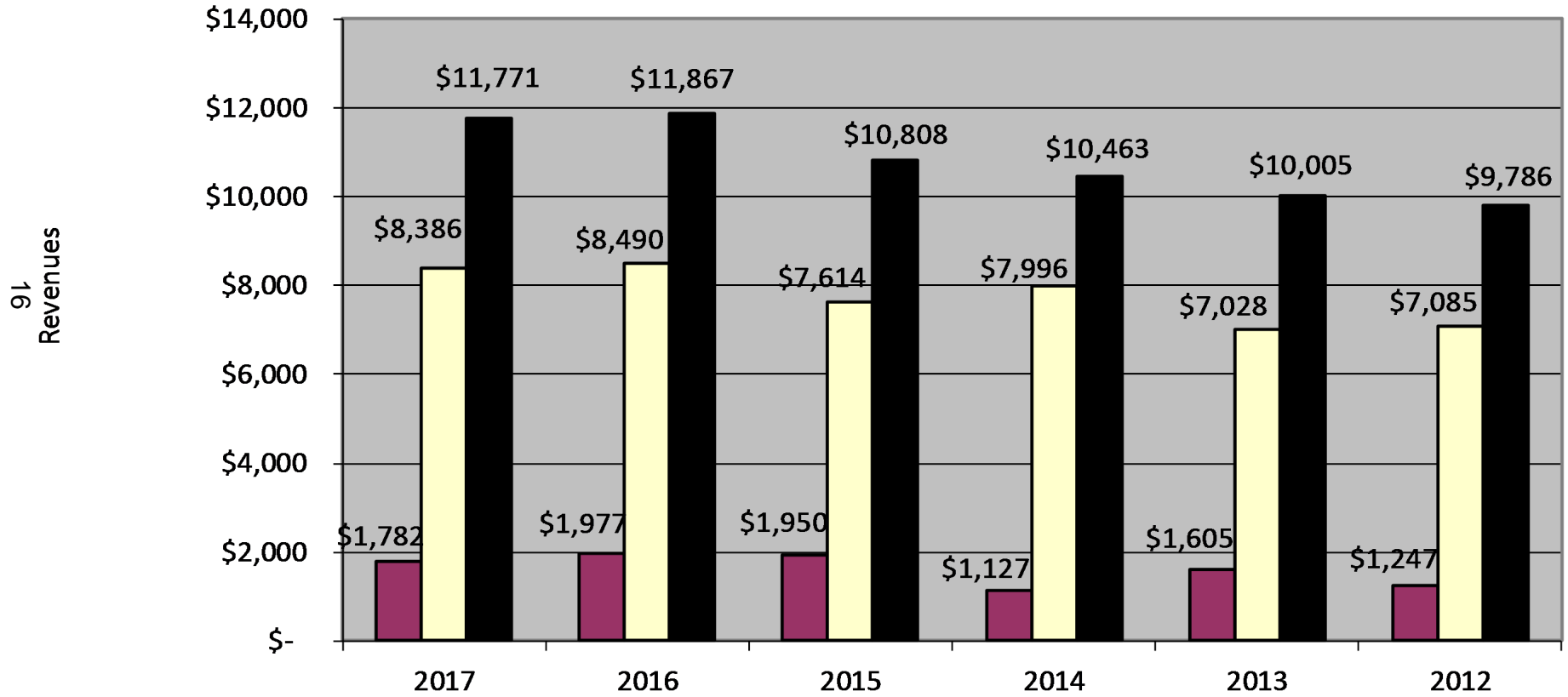
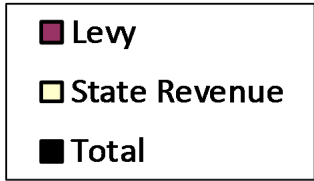
14



Expenditures per WADM



Revenues per WADM



***Thank you for the opportunity to serve
the International Fall Public Schools.***

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CliftonLarsonAllen LLP –

Mary Reedy

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mary.reedy@CLAconnect.com



**INDEPENDENT SCHOOL DISTRICT NO. 361
INTERNATIONAL FALLS, MINNESOTA
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS**

FINANCIAL STATEMENT

YEAR ENDED JUNE 30, 2017

**INDEPENDENT SCHOOL DISTRICT NO. 361
INTERNATIONAL FALLS, MINNESOTA
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
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INDEPENDENT AUDITORS' REPORT

Board of Education, Finance Committee, Advisors, and Students
Independent School District No. 361
International Falls, Minnesota

Report on the Financial Statement

We have audited the statement of cash receipts and disbursements of the student activity funds of Independent School District No. 361 (the District) as of and for the year ended June 30, 2017 and the related note to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the regulatory basis of accounting described in the note to the financial statement. 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.

Auditors' 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 auditors' 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 District'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 purpose of expressing an opinion on the effectiveness of the District'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 modified audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the note to the financial statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the District in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in the note to the financial statement and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

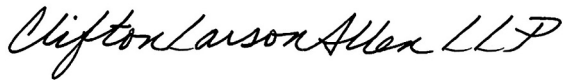
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of the District as of June, 30 2017, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statement referred to in the first paragraph presents fairly, in all material respects, the cash balances of the Student Activity Funds of the District as of June 30, 2017, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statement.



CliftonLarsonAllen LLP

Brainerd, Minnesota
November 20, 2017

**INDEPENDENT SCHOOL DISTRICT NO. 361
INTERNATIONAL FALLS, MINNESOTA
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

| Activity Account | Balance June 30, 2015 | Receipts | Disbursements | Balance June 30, 2016 |
|-------------------------|--------------------------|------------------|------------------|--------------------------|
| Cheerleaders Football | \$ 4,901 | \$ 1,749 | \$ 3,498 | \$ 3,152 |
| Cheerleaders | - | 500 | - | 500 |
| Cheerleaders Hockey | 2,342 | 2,172 | 1,329 | 3,185 |
| Cheerleaders Basketball | 2,035 | 660 | 1,661 | 1,034 |
| National Honor Society | 206 | 299 | 342 | 163 |
| Prom | 2,015 | 10,991 | 9,275 | 3,731 |
| Student Council | 8,931 | 16,046 | 16,565 | 8,412 |
| Interest | 3,135 | - | 157 | 2,978 |
| Total | <u>\$ 23,565</u> | <u>\$ 32,417</u> | <u>\$ 32,827</u> | <u>\$ 23,155</u> |

See accompanying Note to Financial Statement.

**INDEPENDENT SCHOOL DISTRICT NO. 361
INTERNATIONAL FALLS, MINNESOTA
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
NOTE TO FINANCIAL STATEMENT
JUNE 30, 2017**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

International Falls Public School's (the District) extracurricular student activity account 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.

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

The accounts of the extracurricular student activity accounts are maintained, and the accompanying financial statement has 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.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

At June 30, 2017, the carrying amount of the extracurricular student activities account's bank deposits was \$23,155 and the bank balances totaled \$23,755. The District's student activity deposits in banks at June 30, 2017 were entirely covered by federal depository insurance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE
MANUAL FOR ACTIVITY FUND ACCOUNTING**

Board of Education, Finance Committee, Advisors, and Students
Independent School District No. 361
International 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 funds of Independent School District No. 361 (the District) as of and for the year ended June 30, 2017, and the related note to the financial statement which collectively comprises the basic financial statement and have issued our report thereon dated November 20, 2017. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statement is prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

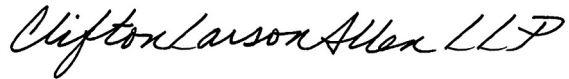
The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, except as described in the Schedule of Findings and Responses at item 2017-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced provisions.

The District's written response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Board of Education, Finance Committee, Advisors, and Students
Independent School District No. 361

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
November 20, 2017

**INDEPENDENT SCHOOL DISTRICT NO. 361
INTERNATIONAL FALLS, MINNESOTA
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

FINDING: 2017-001 MINNESOTA LEGAL COMPLIANCE – PROPER STUDENT ACTIVITY

Condition: It was noted 2 of the 25 disbursements were paid for improper disbursements. According to *The Manual for Activity Fund Accounting (MAFA)*, all disbursements must be for an allowable expense.

VIEWS OF RESPONSIBLE OFFICIALS:

Explanation of Disagreement with Audit Findings: None

Actions Planned in Response to Finding: The District reviews and makes improvements to its internal controls on an ongoing basis, and attempts to ensure disbursements are proper student activities.

Official Responsible for Ensuring Completion: The business manager is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date: June 30, 2018

Plan to Monitor Completion: Administration will be monitoring this corrective action.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2017

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INDEPENDENT SCHOOL DISTRICT NO. 361
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INTRODUCTORY SECTION

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2017**

BOARD OF EDUCATION

| NAME | TERM ON BOARD EXPIRES | BOARD POSITION |
|-------------------------|------------------------------|-----------------------|
| Mike Holden | December 31, 2020 | Chairperson |
| Michelle Hebner | December 31, 2020 | Vice-Chairperson |
| Heather McBride | December 31, 2018 | Treasurer |
| Toni Korpi | December 31, 2018 | Clerk |
| Ted Saxton | December 31, 2018 | Clerk |
| Terry Murray | December 31, 2020 | Director |
| Roxanne Skogstad-Ditsch | December 31, 2020 | Director |

ADMINISTRATION

| | |
|------------------|---|
| Kevin Grover | Superintendent |
| Stacy Grover | Business Manager |
| District Offices | Independent School District No. 361 International Falls Public Schools 1515 11 th Street International Falls, MN (218) 283-2571 |

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 361
International Falls Public Schools
International 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. 361 (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 District'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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position, and budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the District's 2016 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Funding Progress for Postemployment Benefit Plan, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table, as listed in the table of contents, 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, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Other Matters (Continued)

Supplementary Information (Continued)

The individual fund financial statements, the Uniform Financial Accounting and Reporting Standards Compliance Table and the 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 information is 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 November 20, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
November 20, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

This section of International Falls Public Schools – Independent School District No. 361's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016 - 2017 fiscal years include the following:

- District-wide, accrual basis net position decreased by approximately \$2,380,000 on revenues of \$14,400,000 compared to expenses of \$16,800,000.
- Total General Fund revenues were approximately \$13,011,000 as compared to \$12,708,000 of expenditures.
- The fund balance of the General Fund increased by a net of approximately \$314,000 from the prior year representing an 8.3% increase in fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, 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.
 - Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

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, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 they have changed. Net position – the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows 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 an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall financial health of the District, you need to consider additional non-financial factors such as enrollment trends, 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 – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes, state aids, and federal aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or “major” funds – not the District as a whole. 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 (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

The District has two kinds of funds:

- Governmental funds – Most of 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 to 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, we provide additional reconciling information within the governmental funds statements to explain the relationship (or differences) between the funds.
- 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 for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities 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.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was \$(920,648) on June 30, 2017.

**Table A-1
The District's Net Position**

| | Governmental Activities | | Percentage Change |
|----------------------------------|--------------------------------|----------------------------|------------------------------|
| | 2017 | 2016 | |
| Current and Other Assets | \$ 6,494,838 | \$ 6,273,408 | 3.5 % |
| Capital and Noncurrent Assets | 6,968,571 | 7,094,235 | (1.8) |
| Total Assets | <u>13,463,409</u> | <u>13,367,643</u> | 0.7 |
| Deferred Outflows of Resources | 15,437,306 | 1,413,718 | 992.0 |
| Current Liabilities | 731,017 | 869,583 | (15.9) |
| Long-Term Liabilities | 26,467,510 | 9,277,577 | 185.3 |
| Total Liabilities | <u>27,198,527</u> | <u>10,147,160</u> | 168.0 |
| Deferred Inflows of Resources | <u>2,622,836</u> | <u>3,176,222</u> | (17.4) |
| Net Position | | | |
| Net Investment in Capital Assets | 5,678,571 | 5,660,040 | 0.3 |
| Restricted | 867,449 | 762,480 | 13.8 |
| Unrestricted | (7,466,668) | (4,964,541) | 50.4 |
| Total Net Position | <u><u>\$ (920,648)</u></u> | <u><u>\$ 1,457,979</u></u> | (163.1) |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$14,401,421 for the year ended June 30, 2017. Property taxes and state aid formula accounted for 65% of total revenue for the year. Another 30% came from other program-specific federal and state aid.

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

| | <u>Governmental Activities for the</u> | | <u>Total % Change</u> |
|--|--|---------------------|---------------------------|
| | <u>2017</u> | <u>2016</u> | |
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Charges for Services | \$ 523,203 | \$ 695,844 | (24.8)% |
| Operating Grants and Contributions | 4,176,402 | 3,392,901 | 23.1 |
| Capital Grants and Contributions | 175,869 | 282,770 | (37.8) |
| <u>General Revenues</u> | | | |
| Property Taxes | 2,126,760 | 2,360,239 | (9.9) |
| Unrestricted State Aid | 7,241,794 | 7,181,196 | 0.8 |
| Investment Earnings | 22,569 | 7,123 | 216.8 |
| Other | 134,824 | 85,801 | 57.1 |
| Total Revenues | <u>14,401,421</u> | <u>14,005,874</u> | 2.8 |
| Expenses | | | |
| Administration | 945,875 | 728,703 | 29.8 |
| District Support Services | 501,916 | 453,793 | 10.6 |
| Regular Instruction | 8,730,425 | 6,393,266 | 36.6 |
| Vocational Education Instruction | 49,319 | 59,893 | (17.7) |
| Special Education Instruction | 1,929,237 | 1,602,767 | 20.4 |
| Instructional Support Services | 743,928 | 621,912 | 19.6 |
| Pupil Support Services | 1,299,632 | 1,028,410 | 26.4 |
| Sites and Buildings | 1,324,675 | 1,567,890 | (15.5) |
| Fiscal and Other Fixed Cost Programs | 47,852 | 69,300 | (30.9) |
| Food Service | 575,306 | 557,573 | 3.2 |
| Community Service | 505,379 | 464,052 | 8.9 |
| Unallocated - Depreciation | 92,212 | 273,006 | (66.2) |
| Interest and Fiscal Charges on Long-Term Liabilities | 34,292 | 38,030 | (9.8) |
| Total Expenses | <u>16,780,048</u> | <u>13,858,595</u> | 21.1 |
| Increase (Decrease) in Net Position | (2,378,627) | 147,279 | |
| Net Position - Beginning of Year | 1,457,979 | 1,310,700 | |
| Net Position - End of Year | <u>\$ (920,648)</u> | <u>\$ 1,457,979</u> | |

Revenues in fiscal year 2017 remained very consistent with the prior year. However, expenses increased significantly due to the change in the net pension liability and increase in related pension expense causing a decrease in overall net position.

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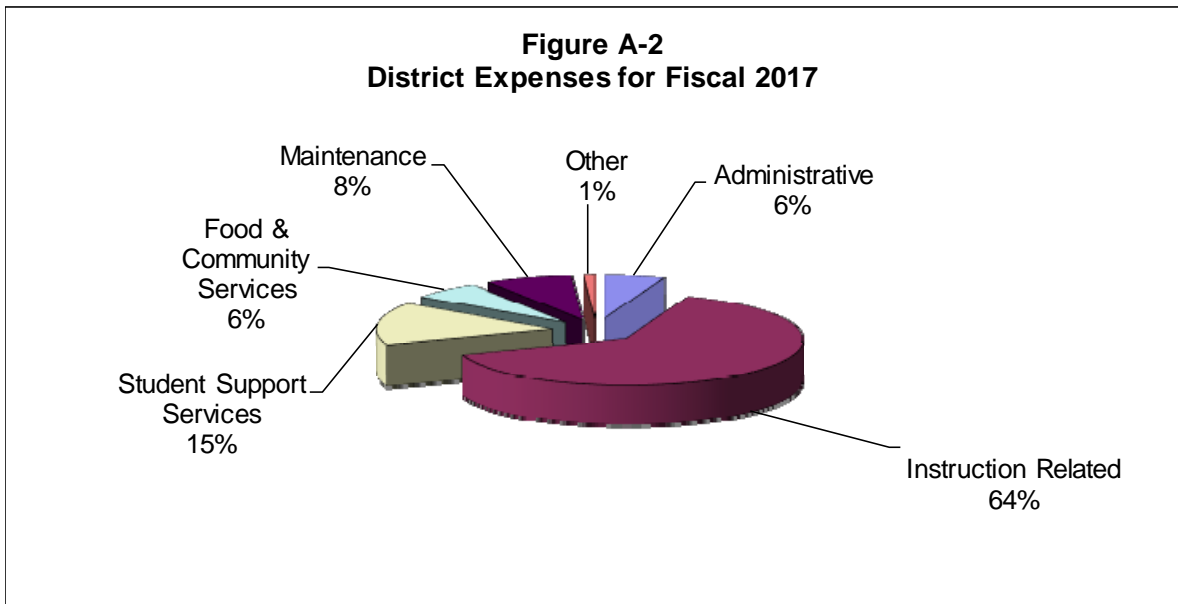
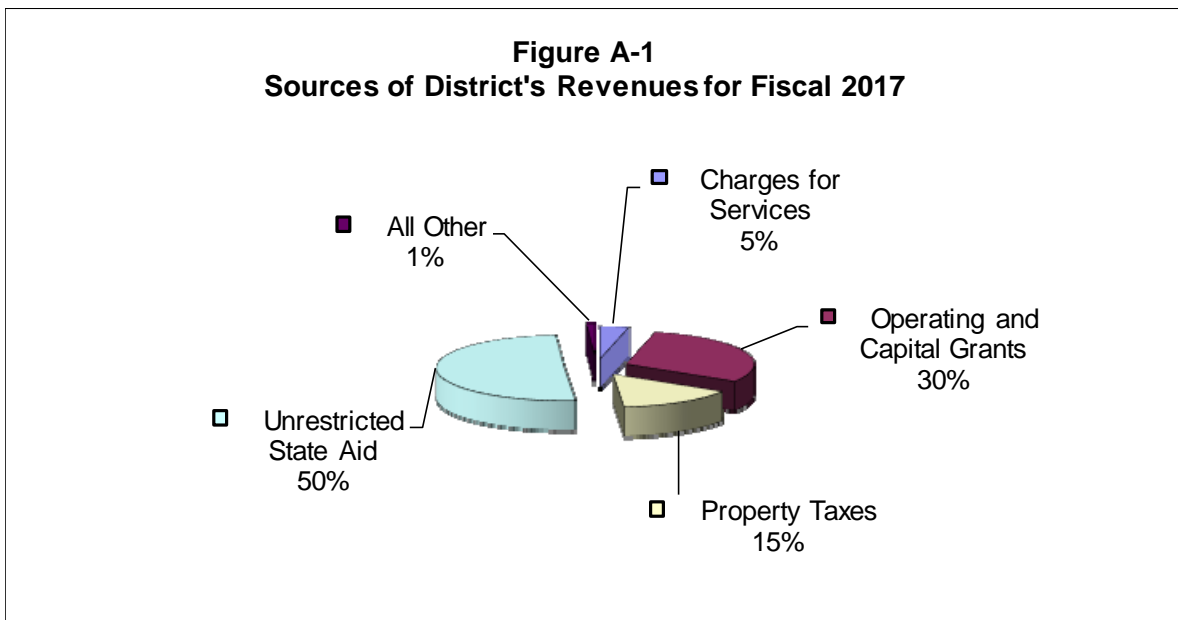
**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The cost of all governmental activities this year was \$16,780,048.

- Some of the cost was paid by the users of the District's programs (\$670,136).
- The federal and state governments subsidized certain programs with grants and contributions (\$4,205,338).
- All of the remaining District's costs (\$11,904,574) were paid by District taxpayers and the taxpayers of our state through \$9,254,916 in property taxes and state aid based on the statewide education aid formula.



**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

**Table A-3
Cost and Net Cost of Services**

| | Total Cost of Services | | | Net Cost of Services | | |
|--|-------------------------------|----------------------|---------------|-----------------------------|---------------------|---------------|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Administration | \$ 945,875 | \$ 728,703 | 29.8 % | \$ 939,602 | \$ 725,188 | 29.6 % |
| District Support Services | 501,916 | 453,793 | 10.6 | 501,916 | 453,793 | 10.6 |
| Regular Instruction | 8,730,425 | 6,393,266 | 36.6 | 7,512,030 | 5,336,975 | 40.8 |
| Vocational Education Instruction | 49,319 | 59,893 | (17.7) | 41,126 | 49,269 | (16.5) |
| Special Education Instruction | 1,929,237 | 1,602,767 | 20.4 | 559,912 | 465,463 | 20.3 |
| Instructional Support Services | 743,928 | 621,912 | 19.6 | 347,337 | 377,356 | (8.0) |
| Pupil Support Services | 1,299,632 | 1,028,410 | 26.4 | 478,610 | 341,677 | 40.1 |
| Sites and Buildings | 1,324,675 | 1,567,890 | (15.5) | 1,197,949 | 1,285,120 | (6.8) |
| Fiscal and Other Fixed Cost Programs | 47,852 | 69,300 | (30.9) | 47,852 | 69,300 | (30.9) |
| Food Service | 575,306 | 557,573 | 3.2 | (28,450) | (41,115) | (30.8) |
| Community Service | 505,379 | 464,052 | 8.9 | 180,186 | 113,018 | 59.4 |
| Unallocated - Depreciation | 92,212 | 273,006 | (66.2) | 92,212 | 273,006 | (66.2) |
| Interest and Fiscal Charges on Long-Term Liabilities | 34,292 | 38,030 | (9.8) | 34,292 | 38,030 | (9.8) |
| Total | \$ 16,780,048 | \$ 13,858,595 | 21.1 | \$ 11,904,574 | \$ 9,487,080 | 25.5 |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,996,490.

Revenues for the District's governmental funds were \$14,115,115, while total expenditures were \$13,762,924.

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.

The following graph shows the trend in student counts over the past ten years:

**Table A-4
Student Enrollment (Average Daily Membership)**

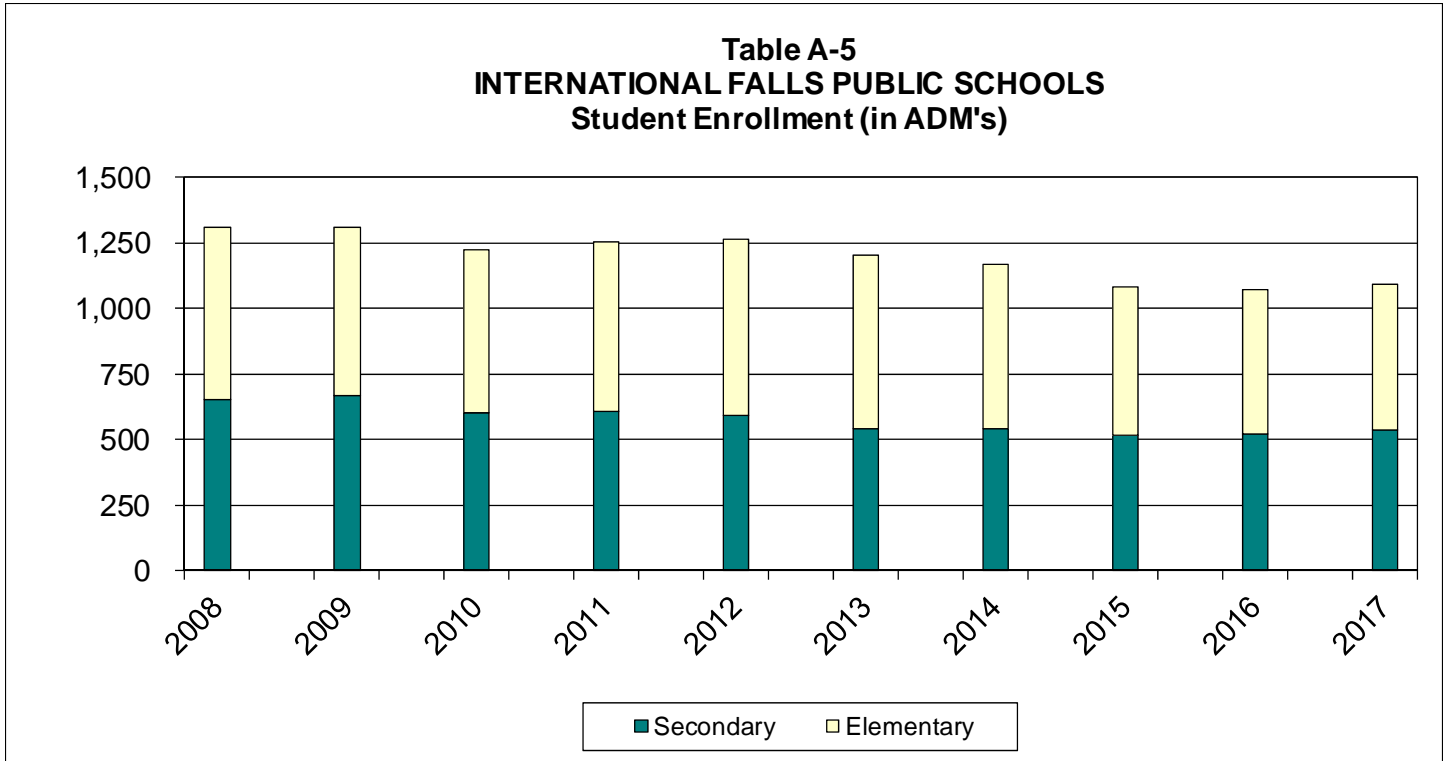
Table A-4

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|--------------|
| Pre-K | 6 | 8 | 8 | 7 | 8 | 5 | 5 | 8 | 13 | 15 |
| HCP K | 14 | 14 | 8 | 12 | 10 | 13 | 10 | 10 | 11 | 17 |
| Reg K | 82 | 72 | 62 | 81 | 75 | 70 | 68 | 60 | 64 | 71 |
| Elementary | 552 | 546 | 546 | 546 | 577 | 573 | 543 | 488 | 461 | 455 |
| Secondary | 655 | 667 | 601 | 608 | 591 | 540 | 542 | 515 | 524 | 535 |
| Total Students for Aid | 1,309 | 1,307 | 1,225 | 1,254 | 1,261 | 1,201 | 1,168 | 1,081 | 1,073 | 1,093 |
| Percent Change | -0.11% | -0.15% | -6.33% | 2.40% | 0.59% | -4.79% | -2.75% | -7.46% | -0.72% | 1.86% |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

Student Enrollment (Average Daily Membership)



The following schedule presents a summary of General Fund Revenues:

**Table A-6
General Fund Revenues**

| Fund | Year Ended | | Change | |
|----------------------------|----------------------|----------------------|----------------------------------|-----------------------------------|
| | June 30, 2017 | June 30, 2016 | Amount Increase (Decrease) | Percent Increase (Decrease) |
| Local Sources | | | | |
| Property Taxes | \$ 1,923,907 | \$ 2,066,467 | \$ (142,560) | (6.9)% |
| Earnings on Investments | 22,569 | 7,123 | 15,446 | 216.8 |
| Charges for Services | 260,809 | 246,827 | 13,982 | 5.7 |
| Other | 235,151 | 222,015 | 13,136 | 5.9 |
| State Sources | 9,781,715 | 9,774,872 | 6,843 | 0.1 |
| Federal Sources | 786,466 | 559,706 | 226,760 | 40.5 |
| Total General Fund Revenue | <u>\$ 13,010,617</u> | <u>\$ 12,877,010</u> | <u>\$ 133,607</u> | 1.0 |

There was an increase of \$133,607 or 1.0% in General Fund revenue from the prior year as shown above. Federal revenues were the main cause of the increase due to a new federal grant received in the current year.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Expenditures:

**Table A-7
General Fund Expenditures**

| | <u>Year Ended</u> | | <u>Change</u> | |
|------------------------|--------------------------|--------------------------|--|--|
| | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>Amount of Increase (Decrease)</u> | <u>Percent Increase (Decrease)</u> |
| Salaries | \$ 7,098,388 | \$ 6,877,761 | \$ 220,627 | 3.2 % |
| Employee Benefits | 2,352,180 | 2,493,924 | (141,744) | (5.7) |
| Purchased Services | 1,782,498 | 2,046,475 | (263,977) | (12.9) |
| Supplies and Materials | 737,198 | 698,075 | 39,123 | 5.6 |
| Capital Expenditures | 580,004 | 668,934 | (88,930) | (13.3) |
| Debt Service | 19,853 | 51,330 | (31,477) | (61.3) |
| Other Expenditures | 138,033 | 106,448 | 31,585 | 29.7 |
| Total Expenditures | <u>\$ 12,708,154</u> | <u>\$ 12,942,947</u> | <u>\$ (234,793)</u> | (1.8) |

Decrease in purchased services is due to the District using in-house transportation instead of purchasing it from outside vendors.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times. These budget amendments fall into two categories:

- Generally speaking, the first budget amendment concentrates on students and staff. Actual student counts from the beginning of the school year are tracked and matched against the student enrollment estimates used to project many of the revenue components in the preliminary budget revenue categories. Actual staffing and respective assignments are verified for accuracy against the projected staffing costs used to establish the preliminary budget expenditures for salaries and benefits.
- Because it occurs further into the fiscal year, the second amendment of the budget has a heavier concentration on the review and tracking of both actual revenue and expenditure categories toward the annual budgeted amounts.

In the case of either budget amendments, depending on how actual revenue and expense items are tracking against the preliminary budget amounts, adjustments are proposed to specific categories for review and approval by the Board of Education.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights (Continued)

Actual results differed from budget as follows:

- While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$73,989, actual revenues exceeded actual expenditures by \$302,463.
- Overall, actual revenues were about \$103,000 less than budgeted, representing approximately less than 1% variation from budget to actual.
- The actual expenditures for current year were about \$479,000 less than budgeted, which represents just under 4% of budgeted expenditures.
- The General Fund's unassigned fund balance increased by \$241,012, while restricted fund balance decreased by \$13,931.

CONSTRUCTION PROJECTS AND DEBT SERVICE

An annual levy is made to fund the bond payments of approximately \$125,000 in principal and \$38,513 of interest.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS

As shown in the table below, the District has invested about \$19,256,000 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. More detailed information about capital assets can be found in Note 3 to the financial statements. Total depreciation expense for the year was approximately \$680,000.

**Table A-8
The District's Capital Assets**

| | <u>2017</u> | <u>2016</u> | <u>Percentage Change</u> |
|--------------------------------|---------------------|---------------------|------------------------------|
| Land | \$ 139,985 | \$ 139,985 | - |
| Construction-in-Progress | - | 64,340 | 100.0 |
| Land Improvements | 1,529,417 | 1,529,417 | - |
| Buildings and Improvements | 14,119,532 | 13,657,248 | 3.4 |
| Equipment | 3,466,767 | 3,372,464 | 2.8 |
| Less: Accumulated Depreciation | (12,287,130) | (11,669,219) | 5.3 |
| Total | <u>\$ 6,968,571</u> | <u>\$ 7,094,235</u> | (1.8) |

Long-Term Liabilities

At year-end, the District had \$1,290,000 in general obligation bonds outstanding as shown in Note 4 to the financial statements.

**Table A-9
The District's Long-Term Liabilities**

| | <u>2017</u> | <u>2016</u> | <u>Percentage Change</u> |
|----------------------------------|---------------------|---------------------|------------------------------|
| General Obligation Bonds | \$ 1,290,000 | \$ 1,415,000 | (8.8)% |
| Obligations Under Capital Leases | - | 19,195 | (100.0) |
| Total | <u>\$ 1,290,000</u> | <u>\$ 1,434,195</u> | (10.1) |
| Long-Term Liabilities | | | |
| Due Within One Year | \$ 130,000 | \$ 144,195 | |
| Due in More Than One Year | 1,160,000 | 1,290,000 | |
| Total | <u>\$ 1,290,000</u> | <u>\$ 1,434,195</u> | |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendums, the District is dependent on the State of Minnesota for its revenue authority.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources.

As the state economy followed national trends during the downturn from 2009 – 2012, increases in funding from the state were very limited and at a level that were insufficient in meeting the instructional program needs and increased costs due to inflation. The District responded to these financial challenges by taking appropriate steps to bring relative stability to its budget, preserving unassigned fund balance for any future uncertainty in funding or unexpected changes in its operating environment.

However, the state has allocated additional funding resources to school districts at a greater level in the last two years than has been seen for quite some time. Over the past ten fiscal years, the District's ADM enrollment has declined by 209 students. The general education funding formula is student driven. More students mean more funding and fewer students mean less funding. Currently, the general education basic allowance, from which the District receives the largest aid, is set at \$6,067 per student.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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 Stacy Grover, the Business Manager, at the District offices located at, 1515 Eleventh Street, International Falls, Minnesota, 56649.

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BASIC FINANCIAL STATEMENTS

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016)**

| | Governmental Activities | |
|---|--------------------------------|--------------|
| | 2017 | 2016 |
| ASSETS | | |
| Cash and Investments | \$ 3,783,469 | \$ 3,934,675 |
| Receivables | | |
| Property Taxes | 1,030,147 | 1,142,538 |
| Other Governments | 1,497,732 | 1,111,594 |
| Other | 10,308 | - |
| Prepaid Items | 59,473 | 1,066 |
| Net Prepaid OPEB Obligation | 92,279 | 57,770 |
| Inventories | 21,430 | 25,765 |
| Capital Assets | | |
| Land | 139,985 | 139,985 |
| Construction in Progress | - | 64,340 |
| Other Capital Assets, Net of Depreciation | 6,828,586 | 6,889,910 |
| Total Assets | 13,463,409 | 13,367,643 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension Related | 15,437,306 | 1,413,718 |
| LIABILITIES | | |
| Salaries and Payroll Deductions | 164,233 | 160,269 |
| Accounts and Contracts Payable | 66,022 | 132,244 |
| Accrued Interest | 15,005 | 16,650 |
| Due to Other Governmental Units | 237,854 | 263,013 |
| Unearned Revenue - Charges for Services | 10,622 | 17,412 |
| Long-Term Liabilities | | |
| Net Pension Liability | 25,173,755 | 7,782,854 |
| Portion Due Within One Year | 237,281 | 279,995 |
| Portion Due in More Than One Year | 1,293,755 | 1,494,723 |
| Total Liabilities | 27,198,527 | 10,147,160 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension Related | 759,871 | 1,241,030 |
| Property Taxes Levied for Subsequent Year | 1,862,965 | 1,935,192 |
| Total Deferred Inflows of Resources | 2,622,836 | 3,176,222 |
| NET POSITION | | |
| Net Investment in Capital Assets | 5,678,571 | 5,660,040 |
| Restricted for: | | |
| General Fund Operating Capital Purposes | 370,223 | 439,398 |
| General Fund State-Mandated Reserves | 262,369 | 229,827 |
| Food Service | 77,630 | 49,180 |
| Community Service | 36,928 | 19,607 |
| OPEB Asset | 92,279 | - |
| Debt Service | 28,020 | 24,468 |
| Unrestricted | (7,466,668) | (4,964,541) |
| Total Net Position | \$ (920,648) | \$ 1,457,979 |

See accompanying Notes to Financial Statements.

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**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| Functions | 2017 | | | | 2016 | 2016 |
|---|----------------------|-------------------------|-----------------------------|-----------------------------|--|--|
| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | Net (Expense) Revenue and Changes in Net Position |
| | | Charges for Services | Operating | Capital | Total | Total |
| | | | Grants and Contributions | Grants and Contributions | Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | | | |
| Administration | \$ 945,875 | \$ 6,273 | \$ - | \$ - | \$ (939,602) | \$ (725,188) |
| District Support Services | 501,916 | - | - | - | (501,916) | (453,793) |
| Regular Instruction | 8,730,425 | 82,390 | 1,136,005 | - | (7,512,030) | (5,336,975) |
| Vocational Education Instruction | 49,319 | - | 8,193 | - | (41,126) | (49,269) |
| Special Education Instruction | 1,929,237 | 130,703 | 1,238,622 | - | (559,912) | (465,463) |
| Instructional Support Services | 743,928 | - | 396,591 | - | (347,337) | (377,356) |
| Pupil Support Services | 1,299,632 | - | 771,879 | 49,143 | (478,610) | (341,677) |
| Sites and Buildings | 1,324,675 | - | - | 126,726 | (1,197,949) | (1,285,120) |
| Fiscal and Other Fixed Cost Programs | 47,852 | - | - | - | (47,852) | (69,300) |
| Food Service | 575,306 | 252,898 | 350,858 | - | 28,450 | 41,115 |
| Community Service | 505,379 | 50,939 | 274,254 | - | (180,186) | (113,018) |
| Interest and Fiscal Charges on | | | | | | |
| Long-Term Liabilities | 34,292 | - | - | - | (34,292) | (38,030) |
| Unallocated Depreciation | 92,212 | - | - | - | (92,212) | (273,006) |
| Total School District | <u>\$ 16,780,048</u> | <u>\$ 523,203</u> | <u>\$ 4,176,402</u> | <u>\$ 175,869</u> | <u>(11,904,574)</u> | <u>(9,487,080)</u> |
| General Revenues | | | | | | |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | | 1,913,983 | 2,099,591 |
| Community Service | | | | | 108,287 | 115,638 |
| Debt Service | | | | | 104,490 | 145,010 |
| State Aid Not Restricted to Specific Purposes | | | | | 7,241,794 | 7,181,196 |
| Earnings on Investments | | | | | 22,569 | 7,123 |
| Gain on Sale of Assets | | | | | 4,730 | 3,100 |
| Miscellaneous | | | | | 130,094 | 82,701 |
| Total General Revenues | | | | | <u>9,525,947</u> | <u>9,634,359</u> |
| CHANGE IN NET POSITION | | | | | <u>(2,378,627)</u> | <u>147,279</u> |
| Net Position - Beginning of Year | | | | | 1,457,979 | 1,310,700 |
| NET POSITION - END OF YEAR | | | | | <u>\$ (920,648)</u> | <u>\$ 1,457,979</u> |

See accompanying Notes to Financial Statements.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

| | Major Funds | | | |
|--|---------------------|------------------|----------------------|-------------------|
| | General | Food Service | Community Service | Debt Service |
| ASSETS | | | | |
| Cash and Investments | \$ 3,543,159 | \$ 66,681 | \$ 89,029 | \$ 84,600 |
| Receivables | | | | |
| Current Property Taxes | 838,888 | - | 60,012 | 57,248 |
| Delinquent Property Taxes | 64,800 | - | 4,187 | 5,012 |
| Due from Other Minnesota School Districts | 214,448 | - | - | - |
| Due from Minnesota Department of Education | 1,027,728 | - | 14,276 | 6,275 |
| Due from Federal through Minnesota Department of Education | 233,635 | - | - | - |
| Due from Other Governmental Units | 1,370 | - | - | - |
| Other Receivables | 10,308 | - | - | - |
| Prepaid Items | 59,472 | 1 | - | - |
| Inventory | 6,347 | 15,083 | - | - |
| Total Assets | <u>\$ 6,000,155</u> | <u>\$ 81,765</u> | <u>\$ 167,504</u> | <u>\$ 153,135</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Salaries and Payroll Deductions | \$ 156,309 | \$ - | \$ 7,924 | \$ - |
| Accounts and Contracts Payable | 65,530 | - | 492 | - |
| Due to Other Minnesota School Districts | 237,268 | - | - | - |
| Due to Other Governmental Units | 357 | - | 229 | - |
| Unearned Revenue - Charges for Services | - | 4,135 | 6,487 | - |
| Total Liabilities | <u>459,464</u> | <u>4,135</u> | <u>15,132</u> | <u>-</u> |
| Deferred Inflows of Resources | | | | |
| Property Taxes Levied for Subsequent Year | 1,637,411 | - | 115,444 | 110,110 |
| Unavailable Revenue - Delinquent Taxes | 55,174 | - | 4,187 | 5,012 |
| Total Deferred Inflows of Resources | <u>1,692,585</u> | <u>-</u> | <u>119,631</u> | <u>115,122</u> |
| Fund Balance | | | | |
| Nonspendable: | | | | |
| Prepaid Items | 59,472 | 1 | - | - |
| Inventory | 6,347 | 15,083 | - | - |
| Restricted: | | | | |
| Deferred Maintenance | - | - | - | - |
| Health and Safety | 5,617 | - | - | - |
| Operating Capital | 370,223 | - | - | - |
| Staff Development | 114,753 | - | - | - |
| Medical Assistance | 128,641 | - | - | - |
| Long-Term Facilities Maintenance (LTFM) | 13,358 | - | - | - |
| Community Education Programs | - | - | 29,190 | - |
| Early Childhood and Family Educations Programs | - | - | 633 | - |
| School Readiness | - | - | 912 | - |
| Adult Basic Education | - | - | 1,308 | - |
| Other Restricted | - | 62,546 | 698 | 38,013 |
| Committed: | | | | |
| Other Committed | 6,190 | - | - | - |
| Assigned: | | | | |
| Other Assigned | 90,080 | - | - | - |
| Unassigned | 3,053,425 | - | - | - |
| Total Fund Balances | <u>3,848,106</u> | <u>77,630</u> | <u>32,741</u> | <u>38,013</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 6,000,155</u> | <u>\$ 81,765</u> | <u>\$ 167,504</u> | <u>\$ 153,135</u> |

See accompanying Notes to Financial Statements.

Total Governmental

Funds

| <u>2017</u> | <u>2016</u> |
|---------------------|---------------------|
| \$ 3,783,469 | \$ 3,934,675 |
| 956,148 | 1,056,641 |
| 73,999 | 85,897 |
| 214,448 | 27,544 |
| 1,048,279 | 966,270 |
| 233,635 | 117,780 |
| 1,370 | - |
| 10,308 | - |
| 59,473 | 1,066 |
| 21,430 | 25,765 |
| <u>\$ 6,402,559</u> | <u>\$ 6,215,638</u> |
| | |
| \$ 164,233 | \$ 160,269 |
| 66,022 | 132,244 |
| 237,268 | 262,209 |
| 586 | 804 |
| 10,622 | 17,412 |
| <u>478,731</u> | <u>572,938</u> |
| | |
| 1,862,965 | 1,935,192 |
| 64,373 | 74,297 |
| <u>1,927,338</u> | <u>2,009,489</u> |
| | |
| 59,473 | 1,066 |
| 21,430 | 25,765 |
| - | (22,701) |
| 5,617 | 5,617 |
| 370,223 | 439,398 |
| 114,753 | 215,934 |
| 128,641 | - |
| 13,358 | - |
| 29,190 | 11,926 |
| 633 | 433 |
| 912 | 749 |
| 1,308 | 1,308 |
| 101,257 | 73,064 |
| 6,190 | 4,124 |
| 90,080 | 55,840 |
| 3,053,425 | 2,820,688 |
| <u>3,996,490</u> | <u>3,633,211</u> |
| | |
| <u>\$ 6,402,559</u> | <u>\$ 6,215,638</u> |

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**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2017
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016)**

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Total Fund Balance for Governmental Funds | \$ 3,996,490 | \$ 3,633,211 |
| Total net position reported for governmental activities in the statement of net position is different because: | | |
| Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of: | | |
| Land | 139,985 | 139,985 |
| Construction-in-Progress | - | 64,340 |
| Land Improvements, Net of Accumulated Depreciation | 326,390 | 357,959 |
| Buildings and Improvements, Net of Accumulated Depreciation | 5,670,751 | 5,588,911 |
| Equipment, Net of Accumulated Depreciation | 831,445 | 943,040 |
| Long-term assets that pertain to governmental funds, such as the other postemployment benefits asset, are not financial resources and therefore are not reported as fund assets. | | |
| | 92,279 | 57,770 |
| Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as deferred inflows of resources in the funds. | | |
| | 64,373 | 74,297 |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | |
| | (15,005) | (16,650) |
| The District's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are: | | |
| Net Pension Liability | (25,173,755) | (7,782,854) |
| Deferred Inflows of Resources - Pension Related | (759,871) | (1,241,030) |
| Deferred Outflows of Resources - Pension Related | 15,437,306 | 1,413,718 |
| Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Position. Balances at year-end are: | | |
| Bonds Payable | (1,290,000) | (1,415,000) |
| Obligations Under Capital Leases | - | (19,195) |
| Severance Benefits Payable | (182,714) | (251,613) |
| Compensated Absences Payable | (58,322) | (88,910) |
| Total Net Position of Governmental Activities | \$ (920,648) | \$ 1,457,979 |

See accompanying Notes to Financial Statements.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | Major Funds | | | |
|---|---------------------|---------------------|--------------------------|---------------------|
| | General | Food Service | Community Service | Debt Service |
| REVENUES | | | | |
| Local | | | | |
| Property Taxes | \$ 1,923,907 | \$ - | \$ 108,287 | \$ 104,490 |
| Earnings on Investments | 22,569 | - | - | - |
| Charges for Services | 260,809 | 252,898 | 49,991 | - |
| Other | 235,151 | - | 1,381 | - |
| State Sources | 9,781,715 | 37,207 | 173,842 | 62,751 |
| Federal Sources | 786,466 | 313,651 | - | - |
| Total Revenues | <u>13,010,617</u> | <u>603,756</u> | <u>333,501</u> | <u>167,241</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Administration | 727,749 | - | - | - |
| District Support Services | 464,583 | - | - | - |
| Regular Instruction | 6,261,419 | - | - | - |
| Vocational Education Instruction | 46,491 | - | - | - |
| Special Education Instruction | 1,595,889 | - | - | - |
| Instructional Support Services | 525,709 | - | - | - |
| Pupil Support Services | 1,088,949 | - | - | - |
| Sites and Buildings | 1,252,807 | - | - | - |
| Fiscal and Other Fixed Cost Programs | 47,852 | - | - | - |
| Food Service | - | 570,050 | - | - |
| Community Service | 96,849 | - | 315,501 | - |
| Capital Outlay | 580,004 | 5,256 | - | - |
| Debt Service | | | | |
| Principal | 19,195 | - | - | 125,000 |
| Interest and Fiscal Charges | 658 | - | - | 38,963 |
| Total Expenditures | <u>12,708,154</u> | <u>575,306</u> | <u>315,501</u> | <u>163,963</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 302,463 | 28,450 | 18,000 | 3,278 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Capital Assets | <u>11,088</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | 313,551 | 28,450 | 18,000 | 3,278 |
| Fund Balance - Beginning of Year | <u>3,534,555</u> | <u>49,180</u> | <u>14,741</u> | <u>34,735</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 3,848,106</u> | <u>\$ 77,630</u> | <u>\$ 32,741</u> | <u>\$ 38,013</u> |

See accompanying Notes to Financial Statements.

**Total Governmental
Funds**

| <u>2017</u> | <u>2016</u> |
|---------------------|---------------------|
| \$ 2,136,684 | \$ 2,327,115 |
| 22,569 | 7,123 |
| 563,698 | 505,332 |
| 236,532 | 224,320 |
| 10,055,515 | 9,994,567 |
| 1,100,117 | 862,300 |
| <u>14,115,115</u> | <u>13,920,757</u> |
| 727,749 | 706,331 |
| 464,583 | 429,265 |
| 6,261,419 | 6,428,348 |
| 46,491 | 51,179 |
| 1,595,889 | 1,613,183 |
| 525,709 | 546,589 |
| 1,088,949 | 944,187 |
| 1,252,807 | 1,304,307 |
| 47,852 | 69,300 |
| 570,050 | 570,047 |
| 412,350 | 472,563 |
| 585,260 | 668,934 |
| 144,195 | 169,883 |
| 39,621 | 42,810 |
| <u>13,762,924</u> | <u>14,016,926</u> |
| 352,191 | (96,169) |
| 11,088 | 3,100 |
| 363,279 | (93,069) |
| <u>3,633,211</u> | <u>3,677,387</u> |
| <u>\$ 3,996,490</u> | <u>\$ 3,584,318</u> |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | 2017 | 2016 |
|--|-----------------------|--------------------|
| Net Change in Fund Balance-Total Governmental Funds | \$ 363,279 | \$ (93,069) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. | | |
| Capital Outlays | 561,064 | 526,381 |
| Net Depreciated Value of Assets Sold | (6,358) | - |
| Depreciation Expense | (680,370) | (665,058) |
| Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the Statement of Net Position. | | |
| Change in Accrued Interest Expense - Capital Leases | 603 | 660 |
| Principal Payments - Capital Leases | 19,195 | 49,883 |
| Payment of OPEB benefits are recognized as expenditures at the fund level while the change in the net prepaid OPEB obligation is recognized in the Statement of Net Position. | | |
| | 34,509 | (16,027) |
| Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources. | | |
| | (2,886,154) | 76,858 |
| The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows: | | |
| Repayment of Bond Principal | 125,000 | 120,000 |
| Change in Accrued Interest Expense | 1,042 | 1,000 |
| Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unavailable in the funds. | | |
| | (9,924) | 33,124 |
| In the Statement of Activities, severance benefits and compensated absences are measured on the accrual basis. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). | | |
| | 99,487 | 64,634 |
| Change in Net Position of Governmental Activities | \$ (2,378,627) | \$ 98,386 |

See accompanying Notes to Financial Statements.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Over (Under) Final Budget</u> |
|--|-------------------------|--------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local Sources | | | | |
| Property Taxes | \$ 1,924,701 | \$ 1,918,038 | \$ 1,923,907 | \$ 5,869 |
| Earnings on Investments | 2,000 | 8,500 | 22,569 | 14,069 |
| Sales and Conversions of Assets | 197,500 | 248,519 | 260,809 | 12,290 |
| Other | 188,759 | 188,587 | 235,151 | 46,564 |
| State Sources | 9,705,461 | 10,132,722 | 9,781,715 | (351,007) |
| Federal Sources | 536,107 | 616,998 | 786,466 | 169,468 |
| Total Revenues | <u>12,554,528</u> | <u>13,113,364</u> | <u>13,010,617</u> | <u>(102,747)</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Administration | 713,719 | 730,621 | 727,749 | (2,872) |
| District Support Services | 435,488 | 460,975 | 464,583 | 3,608 |
| Elementary and Secondary Regular Instruction | 6,369,427 | 6,463,066 | 6,261,419 | (201,647) |
| Vocational Education Instruction | 71,719 | 42,518 | 46,491 | 3,973 |
| Special Education Instruction | 1,449,828 | 1,564,076 | 1,595,889 | 31,813 |
| Community Education | 188,965 | 123,242 | 96,849 | (26,393) |
| Instructional Support Services | 455,933 | 537,560 | 525,709 | (11,851) |
| Pupil Support Services | 959,736 | 1,240,415 | 1,088,949 | (151,466) |
| Sites and Buildings | 1,350,038 | 1,350,141 | 1,252,807 | (97,334) |
| Fiscal and Other Fixed Cost Programs | 70,000 | 47,852 | 47,852 | - |
| Capital Outlay | 652,980 | 607,033 | 580,004 | (27,029) |
| Debt Service | | | | |
| Principal | 17,943 | 19,196 | 19,195 | (1) |
| Interest and Fiscal Charges | 1,911 | 658 | 658 | - |
| Total Expenditures | <u>12,737,687</u> | <u>13,187,353</u> | <u>12,708,154</u> | <u>(479,199)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (183,159) | (73,989) | 302,463 | 376,452 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers Out | (5,000) | - | - | - |
| Sale of Capital Assets | - | 11,100 | 11,088 | (12) |
| Total Other Financing Sources (Uses) | <u>(5,000)</u> | <u>11,100</u> | <u>11,088</u> | <u>(12)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ (188,159)</u> | <u>\$ (62,889)</u> | 313,551 | <u>\$ 376,440</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>3,534,555</u> | |
| END OF YEAR | | | <u>\$ 3,848,106</u> | |

See accompanying Notes to Financial Statements.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2017**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Over (Under) Final Budget</u> |
|-----------------------------------|-------------------------|------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local Sources | | | | |
| Other - Primarily Meal Sales | \$ 266,350 | \$ 260,050 | \$ 252,898 | \$ (7,152) |
| State Sources | 35,000 | 35,000 | 37,207 | 2,207 |
| Federal Sources | 301,310 | 301,310 | 313,651 | 12,341 |
| Total Revenues | <u>602,660</u> | <u>596,360</u> | <u>603,756</u> | <u>7,396</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Food Service | 581,108 | 560,558 | 570,050 | 9,492 |
| Capital Outlay | - | 5,260 | 5,256 | (4) |
| Total Expenses | <u>581,108</u> | <u>565,818</u> | <u>575,306</u> | <u>9,488</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 21,552</u> | <u>\$ 30,542</u> | 28,450 | <u>\$ (2,092)</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>49,180</u> | |
| END OF YEAR | | | <u>\$ 77,630</u> | |

See accompanying Notes to Financial Statements.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2017**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Over (Under) Final Budget</u> |
|-----------------------------------|-------------------------|----------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local Sources | | | | |
| Property Taxes | \$ 119,417 | \$ 105,154 | \$ 108,287 | \$ 3,133 |
| Charges for Services | 49,200 | 51,100 | 49,991 | (1,109) |
| Other | - | 1,093 | 1,381 | 288 |
| State Sources | <u>143,226</u> | <u>170,004</u> | <u>173,842</u> | <u>3,838</u> |
| Total Revenues | <u>311,843</u> | <u>327,351</u> | <u>333,501</u> | <u>6,150</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Community Service | <u>307,704</u> | <u>326,527</u> | <u>315,501</u> | <u>(11,026)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 4,139</u> | <u>\$ 824</u> | 18,000 | <u>\$ 17,176</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>14,741</u> | |
| END OF YEAR | | | <u>\$ 32,741</u> | |

See accompanying Notes to Financial Statements.

INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY TRUST FUND
JUNE 30, 2017
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)

| | 2017 | 2016 |
|-------------------------|-----------|-----------|
| ASSETS | | |
| Cash and Investments | \$ 70,780 | \$ 42,195 |
| NET POSITION | | |
| Held in Trust | \$ 70,780 | \$ 42,195 |

See accompanying Notes to Financial Statements.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY TRUST FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | 2017 | 2016 |
|---------------------------------------|-------------|-------------|
| ADDITIONS | | |
| Investment Earnings | \$ 52 | \$ - |
| Miscellaneous | 31,533 | 35 |
| Total Additions | 31,585 | 35 |
| DEDUCTIONS | | |
| Scholarships | 3,000 | 2,750 |
| CHANGE IN NET POSITION | 28,585 | (2,715) |
| Net Position - Beginning of Year | 42,195 | 44,910 |
| NET POSITION - END OF YEAR | \$ 70,780 | \$ 42,195 |

See accompanying Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 361 (the District) 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. Financial Reporting Entity

The District is an instrumentality of the state of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

U.S. Generally Accepted Accounting Principles (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The Board of Education does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota Statutes, the District's Board of Education has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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, except for the fiduciary fund. The Fiduciary Fund is only reported in the statements of Fiduciary Net Position at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 purpose 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. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

Separate Fund financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the District-wide financial statements. All individual governmental funds are reported in separate columns in the fund financial statements.

The Fiduciary Fund is presented in the fiduciary fund financial statements by type (Trust Fund). Since by definition these assets are being held for the benefit of a third-party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the District-wide statements.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-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 of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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:

1. 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 as 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 U.S. generally accepted accounting principles. 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. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is used for revenues other than property taxes.

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

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

The existence of the various District funds has been established by the state of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund are generated from user fees, federal reimbursements and state aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes and state credits.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term obligation bond principal, interest, and related costs.

Fiduciary Fund

Trust Fund

The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets that are reported in this fund are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The District uses this fund as a scholarship fund.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service and Community Service. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budgeted amounts represent the amended budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board of Education prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by Board of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

Total fund expenditures in excess of the budget require approval of the Board of Education. Spending control is established by the amount of expenditures budgeted for the funds, but management control is exercised at line item levels. Food Service expenditures were over budget by \$9,488. These overages were considered necessary and were approved by the Board.

Budgeted amounts include interim budget amendments that increased and decreased revenue and expenditure budgets as follows:

| <u>Revenues and Other Financing Sources</u> | Original Budget | Amendments | Amended Budget |
|--|--------------------|------------|-------------------|
| General Fund | \$ 12,554,528 | \$ 569,936 | \$ 13,124,464 |
| Special Revenue Funds | | | |
| Food Service Fund | 602,660 | (6,300) | 596,360 |
| Community Service Fund | 262,643 | 13,608 | 276,251 |
| <u>Expenditures and Other Financing Uses</u> | | | |
| General Fund | 12,742,687 | 444,666 | 13,187,353 |
| Special Revenue Funds | | | |
| Food Service Fund | 581,108 | (15,290) | 565,818 |
| Community Service Fund | 307,704 | 18,823 | 326,527 |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

At the end of each fiscal year, if the General Fund has a net unreserved deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which excludes certain reserves specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the commissioner of the Department of Education.

F. Cash and Investments

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist 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, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are expended during the periods benefitted.

J. Net Prepaid OPEB Obligation

This represents the difference between contributions and the annual OPEB cost from adoption of the standard which began in 2009.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar 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 January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid by through various state 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 deferred inflow of resources (property taxes levied for subsequent year).

The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between 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." In the Debt Service Fund, all property taxes collected in a calendar year are recorded as revenue in the fiscal year which begins July 1 of that calendar year.

In accordance with state law, the current tax shift consists of an amount equal to 31% of the District's 2000 pay 2001 operating referendum levy (frozen at \$75,328) advance recognized as revenue each year with no corresponding state aid adjustment. Certain other portions of the District's 2016 Pay 2017 levy, normally revenue for the 2016-17 fiscal year, are also advance recognized as June 30, 2017, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that 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 unavailable because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2017, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statement, 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 generally 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 20 years for equipment.

Capital assets not being depreciated include land and construction in progress.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

M. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The District will not recognize the related outflow until a future event occurs.

N. 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. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Accrued Employee Benefits

Sick Pay

Employees are allowed to accrue and accumulate sick leave days in varying amounts in accordance with contractual agreements. Sick leave days do not vest, and accordingly, employees can be paid sick leave only when sick. Employees are not compensated for unused sick leave upon termination of employment, except in the calculation of severance as discussed below.

Vacation Pay

Certified staff do not receive paid vacations but rather have paid personal days in accordance with their contract. Non-certified and administrative employees are allowed vacation in varying amounts. In the event of termination, an employee is reimbursed for any unused accumulated leave. Vacation pay is charged to operations when taken by the employees of the District. Outstanding vacation pay is recorded as a liability in the district-wide financial statements.

Severance Pay

The District pays severance pay to retiring employees based upon years of service and accumulated sick leave. Upon notice of retirement, the amount of severance pay is determined in accordance with the contractual agreement and paid to the employee's Health Care Savings Plan as administered by the Minnesota Retirement System. This is a pay as you go system and there is no further District severance liability for the retired employee. Severance is not granted to an employee who is discharged by the District. A severance payable is included in the district-wide financial statements as a long-term liability. The payable is estimated using present values for those retired employees with amounts outstanding at June 30, 2017. The total cost of severance paid in fiscal year ending June 30, 2017 for all retirement groups was \$68,899.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred Inflows of Resources

In addition to liabilities, the financial statements 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 or resources (revenue) until that time.

Q. 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's 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.

R. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for the unearned grant revenue, charges for services, and school lunch deposits.

S. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance are related to prepaid items and inventories. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Director of Business Services to assign fund balances and its intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned fund balance.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Balance (Continued)

When the combined total of the General Fund committed, assigned and unassigned fund balance falls below two to three months of operating expenditures, the District shall initiate measures to either generate additional revenues or reduce expenditures through budget reduction, or a combination of both.

T. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the District-wide and Fiduciary Fund financial statements. Net investment in capital assets consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance (less any unspent bond proceeds) of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the District-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

U. Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the District maintains deposits at financial institutions which are authorized by the School District's Board.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated “A” or better; revenue obligations of a state or local government rated “AA” or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The District’s deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

The District may invest idle funds as authorized by Minnesota Statutes Chapter 118A as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies;
 - Shares of investment companies registered under the Investment Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less;
 - General obligations rated “A” or better; revenue obligations rated “AA” or better;
 - General obligations of the Minnesota Housing Finance Agency rate “A” or better;
 - Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System;
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less;

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- Guaranteed investment contracts 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 and repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members 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.

At June 30, 2017, the District had the following investments.

| | Amount |
|--|--------------|
| Minnesota School District Liquid Asset Fund Plus (MSDLAF+) | \$ 61,952 |
| MN Trust Investment Share | 2,992,854 |
| Total Investments | \$ 3,054,806 |

The MN Trust Investment Share is a money market accounts that is valued at amortized cost with maturities of investments of one year or less. The MSDLAF+ is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District’s policy is that the obligations at the time of purchase must be rated at the highest classification by at least two of the four standard rating services. The following chart summarizes year-end ratings for the District’s investments as rated by Moody’s Investors Service:

| Type | Credit Quality Rating | 12 Months or Less |
|----------------------------|--------------------------|----------------------|
| MSDLAF+ | AAAm | \$ 61,952 |
| MN Trust Investment Shares | AAA | 2,992,854 |
| Total | | \$ 3,054,806 |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District's deposits (\$799,443) and investments (\$3,054,806) are presented in the financial statements as follows:

| | |
|--|---------------------|
| Cash and Investments - Statement of Net Position | \$ 3,783,469 |
| Cash and Investments - Agency Fund (Deposits) | 70,780 |
| Total Cash and Investments | <u>\$ 3,854,249</u> |

C. Fair Value Measurements

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Fair Value Measurements (Continued)

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

| Type | Level 1 | Level 2 | Level 3 | Total |
|--|-------------|-------------|-------------|---------------------|
| None Noted | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | \$ - |
| Investments measured at Amortized Cost | | | | <u>3,054,807</u> |
| Total Investments | | | | <u>\$ 3,054,807</u> |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------------|---------------------|---------------------|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 139,985 | \$ - | \$ - | \$ 139,985 |
| Construction-in-Progress | 64,340 | 148,269 | (212,609) | - |
| Total Capital Assets, Not Being Depreciated | <u>204,325</u> | <u>148,269</u> | <u>(212,609)</u> | <u>139,985</u> |
| Capital Assets, Being Depreciated | | | | |
| Land Improvements | 1,529,417 | - | - | 1,529,417 |
| Buildings and Improvements | 13,657,248 | 475,000 | (12,716) | 14,119,532 |
| Equipment | 3,372,464 | 150,404 | (56,101) | 3,466,767 |
| Total Capital Assets, Being Depreciated | <u>18,559,129</u> | <u>625,404</u> | <u>(68,817)</u> | <u>19,115,716</u> |
| Accumulated Depreciation for | | | | |
| Land Improvements | (1,171,458) | (31,569) | - | (1,203,027) |
| Buildings and Improvements | (8,068,337) | (386,802) | 6,358 | (8,448,781) |
| Equipment | (2,429,424) | (261,999) | 56,101 | (2,635,322) |
| Total Accumulated Depreciation | <u>(11,669,219)</u> | <u>(680,370)</u> | <u>62,459</u> | <u>(12,287,130)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>6,889,910</u> | <u>(54,966)</u> | <u>(6,358)</u> | <u>6,828,586</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 7,094,235</u> | <u>\$ 93,303</u> | <u>\$ (218,967)</u> | <u>\$ 6,968,571</u> |

Depreciation expense was charged to functions of the District as follows:

| | |
|---|-------------------|
| Governmental Activities: | |
| Administration | \$ 21,663 |
| District Support Services | 25,268 |
| Regular Instruction | 299,875 |
| Vocational Education Instruction | 2,772 |
| Special Education Instruction | 282 |
| Instructional Support Services | 78,927 |
| Pupil Support Services | 97,827 |
| Sites and Buildings | 61,544 |
| Unallocated | 92,212 |
| Total Depreciation Expense, Governmental Activities | <u>\$ 680,370</u> |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 LONG-TERM LIABILITIES

A. Components of General Long-Term Debt

| Description of Issue | Issue Date | Interest Rate | Original Issue | Final Maturity | Outstanding |
|------------------------------|------------|---------------|----------------|----------------|---------------------|
| Alternative Facilities Bonds | | | | | |
| Series 2010A | 9/8/2010 | 2.00 - 3.40% | \$ 2,000,000 | 2/1/2026 | \$ 1,290,000 |
| Severance Benefits Payable | | | | | 182,714 |
| Compensated Absences Payable | | | | | 58,322 |
| Total Long-Term Liabilities | | | | | <u>\$ 1,531,036</u> |

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

| Year Ending June 30 | General Obligation Bonds Payable | |
|------------------------|-------------------------------------|-------------------|
| | Principal | Interest |
| 2018 | \$ 130,000 | \$ 36,013 |
| 2019 | 130,000 | 33,413 |
| 2020 | 135,000 | 30,488 |
| 2021 | 140,000 | 27,248 |
| 2022 | 145,000 | 23,538 |
| 2023-2027 | 610,000 | 50,523 |
| Total | <u>\$ 1,290,000</u> | <u>\$ 201,223</u> |

C. Description of Long-Term Debt

1. General Obligation Alternative Facilities Bonds

On September 8, 2010, the District issued \$2,000,000 General Obligation Alternative Facilities Bonds, Series 2010A. Annual installments of \$105,000 to \$160,000 are due through February 1, 2036 with interest rates of 2.00% to 3.40%.

Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. Deferred future years' tax levies available to retire bond principal and interest payable at June 30, 2017 are approximately \$1,935,186. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota Statutes.

2. Capital Lease Obligations

Equipment-

On July 15, 2012, the District entered into a five-year capital lease arrangement for a school bus with De Lage Landen Public Finance LLC. The total lease was for \$92,899 which matured July 15, 2016.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

| | June 30, 2016 | Net Additions | Retirements | June 30, 2017 | Due Within One Year |
|----------------------------|---------------------|-------------------|-------------------|---------------------|------------------------|
| General Obligation Bonds | \$ 1,415,000 | \$ - | \$ 125,000 | \$ 1,290,000 | \$ 130,000 |
| Capital Leases | 19,195 | - | 19,195 | - | - |
| Subtotal | 1,434,195 | - | 144,195 | 1,290,000 | 130,000 |
| Severance Benefits Payable | 251,613 | - | 68,899 | 182,714 | 48,959 |
| Compensated Absences | 88,910 | 244,196 | 274,784 | 58,322 | 58,322 |
| Total | <u>\$ 1,774,718</u> | <u>\$ 244,196</u> | <u>\$ 487,878</u> | <u>\$ 1,531,036</u> | <u>\$ 237,281</u> |

NOTE 5 RESTRICTED FUND BALANCES

A. Restricted for Health and Safety

Represents available resources in the General Fund to be used for Health and Safety projects in accordance with an approved Health and Safety plan.

B. Restricted for Operating Capital

Represents tax levies and state aid in the General Fund to be used for purchase of equipment and facilities.

C. Restricted for Staff Development

Represents cumulative unspent staff development dollars.

D. Restricted for Medical Assistance

Represents resources available to be used for medical assistance expenditures.

E. Restricted for Long-Term Facility Maintenance (LTFM)

Represents available resources to be used for LTFM capital projects in accordance with the ten year plan.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 RESTRICTED FUND BALANCES (CONTINUED)

F. Restricted for Community Education

Represents the resources available to provide programming such as: non-vocational, recreational and leisure time activities, programs for adults with disabilities, non-credit summer programs, adult basic education programs, youth development and youth service programming, early childhood family education, and extended day programs.

G. Restricted for Early Childhood and Family Education

Represents the resources available to provide for services for Early Childhood Family Education programming.

H. Restricted for School Readiness

Represents the resources available to provide for School Readiness Program.

I. Restricted for Adult Basic Education

Represents the resources available to provide for Adult Basic Education Programs.

J. Restricted for Other Purposes

Restricted for other purposes represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. See break out below:

| | | |
|------------------------|-----------|----------------|
| Other Restricted | | |
| Food Service | \$ | 62,546 |
| Community Service | | 698 |
| Debt Service | | 38,013 |
| Total Other Restricted | <u>\$</u> | <u>101,257</u> |

NOTE 6 COMMITTED FUND BALANCES

Other Committed

Represents amounts constrained for a specific purpose by the district using the highest level of decision making authority (generally the Board of Education). It requires action by the same group to remove or change the constraints placed on the resources. The General Fund Committed Fund Balance of \$6,190 is for the Bronco Hall of Fame.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 ASSIGNED FUND BALANCES

Assigned for Other Purposes

Represents amounts constrained by the District's intent to be used for a specific purpose, but are not restricted or committed. The Board of Education has delegated the authority to assign amounts to be used for specific purposes. See detailed break out of General Fund Assigned Fund Balances below:

| | | |
|-----------------------------|-----------|---------------|
| Other Assigned | | |
| Assigned Donations | \$ | 13,983 |
| 3rd Grade Field Trip Funds | | 562 |
| 4th Grade Field Trip Funds | | 1 |
| 5th Grade Field Trip Funds | | 132 |
| 6th Grade Field Trip Funds | | 2,351 |
| All Class Reunion | | 25,484 |
| Falls Education Foundation | | |
| Donation | | 3,345 |
| FES PBIS | | 5,555 |
| FHS PBIS | | 3,367 |
| Project Read | | 1,512 |
| Purple Pride | | 467 |
| Band Trip | | 1,411 |
| FES Miscellaneous Donations | | 8,658 |
| FHS Miscellaneous Donations | | 12,237 |
| Science Trip | | 1,848 |
| Arena Advertising | | 9,167 |
| Total Other Assigned | <u>\$</u> | <u>90,080</u> |

NOTE 8 PENSION PLANS

A. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. PERA and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Employees Plan)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. The General Employees members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA)

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

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

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (continued)

1. General Employees Plan Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. TRA Benefits

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 Statutes 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 1 Benefits

| Tier 1 | Step Rate Formula | Percentage |
|---------------|--|-------------------|
| Basic | First Ten Years of Service | 2.2% per Year |
| | All Years After | 2.7% per Year |
| Coordinated | First Ten Years of Service are Up to July 1, 2006 | 1.2% per Year |
| | First Ten Years, If Service Years are July 1, 2006 or After | 1.4% per Year |
| | All Other Years of Service If Service Years are Up to July 1, 2006 | 1.7% per Year |
| | All Other Years of Service If Services Years are July 1, 2006 or After | 1.9% per Year |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier 1 Benefits (Continued)

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) 3.0% per year early retirement reduction factor 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% per year for coordinated members and 2.7% per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

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

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

C. Contributions

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

1. General Employees Plan Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2017. In fiscal year 2017, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the General Employees Plan for the plan's fiscal year ended June 30, 2017, were \$167,479. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for the fiscal year were: ·

| | Ending June 30, 2017 | |
|-------------|----------------------|----------|
| | Employee | Employer |
| Basic | 11.0 % | 11.5 % |
| Coordinated | 7.5 | 7.5 |

The District's contributions to TRA for the plan's fiscal year ended June 30, 2017, were \$385,702. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. General Employees Plan Pension Costs

At June 30, 2017, the District reported a liability of \$2,752,512 for its proportionate share of the General Employees Plan's net pension liability. District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing District 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 \$35,904. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0339% which was a decrease of 0.003% from its proportion measured as of June 30, 2015.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$249,173 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$10,706 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ 8,146 | \$ 223,601 |
| Changes in Actuarial Assumptions | 593,650 | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 307,299 | - |
| Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions | - | 240,849 |
| District Contributions Subsequent to the Measurement Date | 167,479 | - |
| Total | <u>\$ 1,076,574</u> | <u>\$ 464,450</u> |

\$167,479 reported as deferred outflows of resources related to pensions resulting from District contributions to General Employees Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to General Employees Plan pensions will be recognized in pension expense as follows:

| Year Ended June 30 | Pension Expenses Amount |
|--------------------|-------------------------------|
| 2018 | \$ 91,889 |
| 2019 | 29,036 |
| 2020 | 224,295 |
| 2021 | 99,425 |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$22,421,243 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.094% at the end of the measurement period and 0.095% for the beginning of the period.

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:

| Description | Amount |
|---|---------------|
| District's Proportionate Share of the TRA Net Pension Liability | \$ 22,421,243 |
| State's Proportionate Share of TRA's Net Pension Liability Associated with the District | 2,249,743 |

For the year ended June 30, 2017, the District recognized pension expense of \$3,203,830. It also recognized \$314,246 as pension expense for the support provided by direct aid.

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INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

At June 30, 2017, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|----------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ 219,625 | \$ 625 |
| Changes in Actuarial Assumptions | 12,785,447 | - |
| Net Difference Between Projected and Actual Investment Earnings | 969,958 | - |
| Changes in Proportion Differences Between Contributions and Made and the District's Proportionate Share of Contributions | - | 294,796 |
| District Contributions Subsequent to the Measurement Date | 385,702 | - |
| Total | <u>\$ 14,360,732</u> | <u>\$ 295,421</u> |

\$385,702 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 ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

| Year Ended June 30 | Pension Expenses Amount |
|--------------------|-------------------------------|
| 2018 | \$ 2,672,080 |
| 2019 | 2,672,080 |
| 2020 | 3,005,682 |
| 2021 | 2,852,103 |
| 2022 | 2,477,664 |

The District's total pension expense for all plans for the year ended June 30, 2017 was \$3,777,955.

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INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

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

| Assumptions | GERF | TRA |
|------------------------------|----------------|---------------------------------|
| Inflation | 2.5% per Year | 2.75% |
| Active Member Payroll Growth | 3.50% per Year | 3.50% Based on Years of Service |
| Investment Rate of Return | 7.5% per Year | 8.00% |

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 the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan.

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

The following changes in actuarial assumptions occurred in 2016:

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

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date for TRA. Post-retirement benefit adjustments are now assumed to stay level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic Equity | 45.0 % | 5.50 % |
| International Equity | 15.0 | 6.00 |
| Bonds | 18.0 | 1.45 |
| Alternative Assets | 20.0 | 6.40 |
| Cash | 2.0 | 0.50 |
| Totals | 100.0 % | |

F. Discount Rate

The discount rate used to measure the total General Employees Plan pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the TRA pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on fiduciary net position at prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

G. 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:

| Description | 1% Decrease | Current Discount Rate | 1% Increase in Discount Rate |
|--|---------------|-----------------------|------------------------------|
| <u>General Employees Plan Discount Rate</u> | 6.50% | 7.50% | 8.50% |
| District's Proportionate Share of the General Employees Plan Net Pension Liability | \$ 3,909,383 | \$ 2,752,512 | \$ 1,799,565 |
| <u>TRA Discount Rate</u> | 3.66% | 4.66% | 5.66% |
| District's Proportionate Share of the TRA Net Pension Liability | \$ 28,884,165 | \$ 22,421,243 | \$ 17,157,404 |

H. Pension Plan Fiduciary Net Position

Detailed information about GERP's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org.

Detailed information about TRA'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 #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan (the Plan) that provides health and dental insurance to eligible employees and their spouses through the District's health insurance plan. There are 133 active participants and 171 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

The District is funding this liability on pay-as-you go basis. The District is amortizing the initial unfunded accrued liability over a period of 30 years.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

| | |
|--|---------------------------|
| Annual Required Contribution (ARC) | \$ 77,778 |
| Interest on Net OPEB Obligation | (2,022) |
| Adjustment to ARC | 3,141 |
| Annual OPEB Cost | <u>78,897</u> |
| Implicit Rate Subsidy Estimate | (80,209) |
| Contributions During the Year | <u>(33,197)</u> |
| Increase (Decrease) in Net OPEB Obligation | (34,509) |
| Net OPEB (Asset) Liability - Beginning of the Year | <u>(57,770)</u> |
| Net OPEB (Asset) Liability - End of the Year | <u><u>\$ (92,279)</u></u> |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, and the two preceding years:

| Year Ended | Annual OPEB Cost | Annual Plan Sponsor Contributions | Percentage Contributed | Net OPEB Obligation (Asset) |
|---------------|---------------------|---|---------------------------|-----------------------------------|
| June 30, 2017 | \$ 78,897 | \$ 113,406 | 143.7% | \$ (92,279) |
| June 30, 2016 | 97,846 | 81,819 | 83.6% | (57,770) |
| June 30, 2015 | 99,202 | 105,791 | 106.6% | (73,797) |

D. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation, the plan was unfunded. The actuarial accrued liability for benefits was \$710,083, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$710,083. The covered payroll (annual payroll of active employees covered by the Plan) was \$7,331,033, and the ratio of the UAAL to the covered payroll was 9.7%.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 6.6% to 4.4% in 2075. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over 30 years.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Federal and State Programs

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial. The financial assistance received is subject to an audit pursuant to the Uniform Grant Guidance or audits by the grantor agency.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 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.

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REQUIRED SUPPLEMENTARY INFORMATION

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
CURRENT AND TWO PRECEDING VALUATIONS
JUNE 30, 2017**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (Asset) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|---|--------------------------|---------------------------|--|
| 7/1/2016 | \$ - | \$ 710,083 | \$ 710,083 | - | \$ 7,331,033 | 9.7 % |
| 7/1/2014 | - | 875,510 | 875,510 | - | 7,145,250 | 12.3 |
| 7/1/2012 | - | 3,449,520 | 3,449,520 | - | 6,629,113 | 52.0 |

See accompanying Note to Required Supplementary Information.
(63)

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2017**

| | Measurement Date <u>June 30, 2016</u> | Measurement Date <u>June 30, 2015</u> | Measurement Date <u>June 30, 2014</u> |
|--|---|---|---|
| General Employees Plan | | | |
| District's Proportion of the Net Pension Liability | 0.0339% | 0.0369% | 0.0412% |
| District's Proportionate Share of the Net Pension Liability | \$ 2,752,512 | \$ 1,912,350 | \$ 1,935,370 |
| State's Proportionate Share of the Net Pension Liability Associated with District | \$ 35,904 | \$ - | \$ - |
| Total of District's and State's Proportionate Share of the Net Pension Liability | <u>\$ 2,788,416</u> | <u>\$ 1,912,350</u> | <u>\$ 1,935,370</u> |
| District's Covered Payroll | \$ 2,105,213 | \$ 2,167,266 | \$ 2,165,437 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll | 130.75% | 88.24% | 89.38% |
| Plan Fiduciary Net Position as a Percentage of the total Pension Liability | 68.90% | 78.20% | 78.75% |
| TRA | | | |
| District's Proportion of the Net Pension Liability | 0.0940% | 0.0949% | 0.102% |
| District's Proportionate Share of the Net Pension Liability | \$ 22,421,243 | \$ 5,870,504 | \$ 4,677,047 |
| State's Proportionate Share of the Net Pension Liability Associated with District | \$ 2,249,743 | \$ 719,800 | \$ 328,902 |
| Total of District's and State's Proportionate Share of the Net Pension Liability | <u>\$ 24,670,986</u> | <u>\$ 6,590,304</u> | <u>\$ 5,005,949</u> |
| District's Covered Payroll | \$ 4,892,093 | \$ 4,817,481 | \$ 4,631,978 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll | 458.32% | 121.86% | 100.97% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 44.88% | 76.77% | 81.50% |

NOTE: Information is presented prospectively and an accumulation of ten years will be provided.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST THREE FISCAL YEARS**

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|------------------|------------------|
| General Employees Plan | | | | |
| Contractually Required Contribution | \$ 167,479 | \$ 157,891 | \$ 160,096 | \$ 156,994 |
| Contributions in Relation to the Contractually Required Contribution | <u>(167,479)</u> | <u>(157,891)</u> | <u>(160,096)</u> | <u>(156,994)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | | |
| District's Covered Payroll | \$ 2,233,053 | \$ 2,105,213 | \$ 2,167,266 | \$ 2,165,437 |
| Contributions as a Percentage of Covered Payroll | 7.50% | 7.50% | 7.39% | 7.25% |
| | | | | |
| TRA | | | | |
| Contractually Required Contribution | \$ 385,702 | \$ 366,907 | \$ 361,311 | \$ 324,238 |
| Contributions in Relation to the Contractually Required Contribution | <u>(385,702)</u> | <u>(366,907)</u> | <u>(361,311)</u> | <u>(324,238)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | | |
| District's Covered Payroll | \$ 5,142,693 | \$ 4,892,093 | \$ 4,817,481 | \$ 4,631,978 |
| Contributions as a Percentage of Covered Payroll | 7.50% | 7.50% | 7.50% | 7.00% |

NOTE: Information is presented prospectively and an accumulation of ten years will be provided.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

NOTE 1 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN

Beginning with the actuarial study performed on July 1, 2014, the District's estimate for the percent of current retirees assumed to continue coverage changed within the following contract groups:

Teachers, Principals, and Superintendent went from 100% currently under age 65 will continue until age 65 and 50% thereafter to 100% currently under age 65 continuing until age 65 and then discontinuing from 100% currently over age 65 continuing for life to 50% if Medicare eligible and 100% if non-Medicare eligible continuing for life.

AFSCME went from 100% currently under age 65 and 10% thereafter to 100% currently under age 65 continuing until age 65 and then discontinuing from 100% currently over age 65 continuing for life to 50% if Medicare eligible and 100% if non-Medicare eligible continuing for life.

Also, the District's estimate for the percent of future retirees assumed to continue coverage changed within the following contract groups:

Teachers, Principals, and Superintendents went from 75% elect at retirement, continue until age 65 and 20% thereafter to 90% elect at retirement, continue until age 65 and then discontinue.

AFSCME went 75% elect at retirement, continue until age 65 and 5% thereafter to 50% elect at retirement, continue until age 65 and then discontinue.

The final change in the actuarial study happened when the District changed insurance carriers. This changed the amount of premiums being paid.

These changes in the District's estimate caused the District's AAL to decrease significantly from the 2012 AAL to the 2014 AAL.

SUPPLEMENTARY INFORMATION

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
BALANCE SHEET
GENERAL FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

| | 2017 | 2016 |
|--|--------------|--------------|
| ASSETS | | |
| Cash and Investments | \$ 3,543,159 | \$ 3,718,804 |
| Receivables | | |
| Current Taxes | 838,888 | 929,324 |
| Delinquent Taxes | 64,800 | 74,648 |
| Accounts and Interest Receivable | 10,308 | - |
| Due from Other Minnesota School Districts | 214,448 | 27,544 |
| Due from Minnesota Department of Education | 1,027,728 | 953,494 |
| Due from Federal through the Minnesota Department of Education | 233,635 | 117,780 |
| Due from Other Governmental Units | 1,370 | - |
| Prepaid Items | 59,472 | - |
| Inventories | 6,347 | 15,655 |
| Total Assets | \$ 6,000,155 | \$ 5,837,249 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | |
| Liabilities | | |
| Salaries Payable | \$ 156,309 | \$ 146,454 |
| Accounts and Contracts Payable | 65,530 | 132,013 |
| Due to Other Minnesota School Districts | 237,268 | 262,209 |
| Due to Other Governmental Units | 357 | 340 |
| Total Liabilities | 459,464 | 541,016 |
| Deferred Inflows of Resources | | |
| Property Taxes Levied for Subsequent Year | 1,637,411 | 1,698,630 |
| Unavailable Revenue - Delinquent Taxes | 55,174 | 63,048 |
| Total Deferred Inflows of Resources | 1,692,585 | 1,761,678 |
| Fund Balances (Deficit) | | |
| Nonspendable | | |
| Prepaid Items | 59,472 | - |
| Inventory | 6,347 | 15,655 |
| Restricted | | |
| Deferred Maintenance | - | (22,701) |
| Health and Safety | 5,617 | 5,617 |
| Operating Capital | 370,223 | 439,398 |
| Staff Development | 114,753 | 215,934 |
| Medical Assistance | 128,641 | - |
| Long-Term Facilities Maintenance (LTFM) | 13,358 | - |
| Committed | | |
| Other Committed | 6,190 | 4,124 |
| Assigned | 90,080 | 55,840 |
| Unassigned | 3,053,425 | 2,820,688 |
| Total Fund Balances | 3,848,106 | 3,534,555 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 6,000,155 | \$ 5,837,249 |

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**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | 2017 | | Over (Under) Final Budget | 2016 |
|--|-----------------|-------------------|------------------------------------|-------------------|
| | Final Budget | Actual Amounts | | Actual Amounts |
| REVENUES | | | | |
| Local Sources | | | | |
| Property Taxes | \$ 1,918,038 | \$ 1,923,907 | \$ 5,869 | \$ 2,066,467 |
| Earnings on Investments | 8,500 | 22,569 | 14,069 | 7,123 |
| Charges for Services | 248,519 | 260,809 | 12,290 | 246,827 |
| Other | 188,587 | 235,151 | 46,564 | 222,015 |
| State Sources | 10,132,722 | 9,781,715 | (351,007) | 9,774,872 |
| Federal Sources | 616,998 | 786,466 | 169,468 | 559,706 |
| Total Revenues | 13,113,364 | 13,010,617 | (102,747) | 12,877,010 |
| EXPENDITURES | | | | |
| Current | | | | |
| Administration | | | | |
| Salaries | 510,266 | 502,297 | (7,969) | 492,924 |
| Employee Benefits | 175,232 | 171,404 | (3,828) | 171,579 |
| Purchased Services | 27,003 | 34,167 | 7,164 | 20,814 |
| Supplies and Materials | 2,675 | 2,354 | (321) | 4,374 |
| Other Expenditures | 15,445 | 17,527 | 2,082 | 16,640 |
| Total Administration | 730,621 | 727,749 | (2,872) | 706,331 |
| District Support Services | | | | |
| Salaries | 216,913 | 216,913 | - | 198,908 |
| Employee Benefits | 50,563 | 51,101 | 538 | 53,174 |
| Purchased Services | 122,260 | 119,577 | (2,683) | 121,222 |
| Supplies and Materials | 75,777 | 76,845 | 1,068 | 71,129 |
| Capital Expenditures | 316 | 316 | - | 57,701 |
| Other Expenditures | (4,538) | 147 | 4,685 | (15,168) |
| Total District Support Services | 461,291 | 464,899 | 3,608 | 486,966 |
| Elementary and Secondary | | | | |
| Regular Instruction | | | | |
| Salaries | 3,804,068 | 3,751,950 | (52,118) | 3,740,565 |
| Employee Benefits | 1,399,983 | 1,360,839 | (39,144) | 1,454,155 |
| Purchased Services | 697,063 | 624,598 | (72,465) | 764,631 |
| Supplies and Materials | 476,726 | 421,689 | (55,037) | 377,860 |
| Capital Expenditures | 7,175 | - | (7,175) | 13,748 |
| Other Expenditures | 85,226 | 102,343 | 17,117 | 91,137 |
| Total Elementary and Secondary Regular Instruction | 6,470,241 | 6,261,419 | (208,822) | 6,442,096 |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | 2017 | | Over (Under) Final Budget | 2016 | |
|---|-----------------|-------------------|------------------------------------|-------------------|--|
| | Final Budget | Actual Amounts | | Actual Amounts | |
| EXPENDITURES (Continued) | | | | | |
| Current (Continued) | | | | | |
| Vocational Education Instruction | | | | | |
| Salaries | \$ 15,506 | \$ 11,505 | \$ (4,001) | \$ 30,253 | |
| Employee Benefits | 4,512 | 8,448 | 3,936 | 11,491 | |
| Purchased Services | - | 1,239 | 1,239 | - | |
| Supplies and Materials | 18,900 | 21,711 | 2,811 | 5,850 | |
| Capital Expenditures | - | - | - | 4,710 | |
| Other Expenditures | 3,600 | 3,588 | (12) | 3,585 | |
| Total Vocational Education Instruction | 42,518 | 46,491 | 3,973 | 55,889 | |
| Special Education Instruction | | | | | |
| Salaries | 901,606 | 912,992 | 11,386 | 834,145 | |
| Employee Benefits | 285,513 | 295,365 | 9,852 | 299,237 | |
| Purchased Services | 363,593 | 370,403 | 6,810 | 472,729 | |
| Supplies and Materials | 12,925 | 13,017 | 92 | 6,096 | |
| Other Expenditures | 439 | 4,112 | 3,673 | 976 | |
| Total Special Education Instruction | 1,564,076 | 1,595,889 | 31,813 | 1,613,183 | |
| Community Education | | | | | |
| Salaries | 74,592 | 64,884 | (9,708) | 88,956 | |
| Employee Benefits | 44,550 | 30,172 | (14,378) | 38,735 | |
| Purchased Services | - | 647 | 647 | 47 | |
| Supplies and Materials | 4,100 | 1,146 | (2,954) | 2,256 | |
| Total Community Education | 123,242 | 96,849 | (26,393) | 129,994 | |
| Instructional Support Services | | | | | |
| Salaries | 403,837 | 390,410 | (13,427) | 334,426 | |
| Employee Benefits | 74,206 | 74,094 | (112) | 78,027 | |
| Purchased Services | 37,575 | 44,909 | 7,334 | 57,652 | |
| Supplies and Materials | 10,575 | 7,056 | (3,519) | 68,711 | |
| Other Expenditures | 11,367 | 9,240 | (2,127) | 7,773 | |
| Total Instructional Support Services | 537,560 | 525,709 | (11,851) | 546,589 | |
| Pupil Support Services | | | | | |
| Salaries | 775,153 | 748,844 | (26,309) | 643,882 | |
| Employee Benefits | 214,538 | 209,261 | (5,277) | 192,202 | |
| Purchased Services | 99,257 | 28,640 | (70,617) | 28,688 | |
| Supplies and Materials | 151,237 | 101,203 | (50,034) | 78,230 | |
| Capital Expenditures | 143,253 | 155,365 | 12,112 | 143,738 | |
| Other Expenditures | 230 | 1,001 | 771 | 1,185 | |
| Total Pupil Support Services | 1,383,668 | 1,244,314 | (139,354) | 1,087,925 | |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | 2017 | | Over (Under) Final Budget | 2016 |
|---|--------------------|---------------------|------------------------------------|---------------------|
| | Final Budget | Actual Amounts | | Actual Amounts |
| EXPENDITURES (Continued) | | | | |
| Current (Continued) | | | | |
| Sites and Buildings | | | | |
| Salaries | \$ 529,102 | \$ 498,593 | \$ (30,509) | \$ 513,702 |
| Employee Benefits | 160,564 | 151,496 | (9,068) | 195,324 |
| Purchased Services | 558,896 | 510,466 | (48,430) | 511,392 |
| Supplies and Materials | 100,979 | 92,177 | (8,802) | 83,569 |
| Capital Expenditures | 456,289 | 424,323 | (31,966) | 449,037 |
| Other Expenditures | 600 | 75 | (525) | 320 |
| Total Sites and Buildings | 1,806,430 | 1,677,130 | (129,300) | 1,753,344 |
| Fiscal and Other Fixed Cost Programs | | | | |
| Purchased Services | 47,852 | 47,852 | - | 69,300 |
| Debt Service | | | | |
| Principal Payments | 19,196 | 19,195 | (1) | 49,883 |
| Interest Payments | 658 | 658 | - | 1,447 |
| Total Debt Service | 19,854 | 19,853 | (1) | 51,330 |
| Total Expenditures | 13,187,353 | 12,708,154 | (479,199) | 12,942,947 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (73,989) | 302,463 | 376,452 | (65,937) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Capital Assets | 11,100 | 11,088 | (12) | 3,100 |
| NET CHANGE IN FUND BALANCE | \$ (62,889) | 313,551 | \$ 376,440 | (62,837) |
| FUND BALANCE | | | | |
| Beginning of Year | | 3,534,555 | | 3,597,392 |
| END OF YEAR | | \$ 3,848,106 | | \$ 3,534,555 |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
BALANCE SHEET
FOOD SERVICE FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

| | 2017 | 2016 |
|---|-------------|-------------|
| ASSETS | | |
| Cash and Investments | \$ 66,681 | \$ 45,478 |
| Receivables | | |
| Prepaid Items | 1 | 1,066 |
| Inventory | 15,083 | 10,110 |
| Total Assets | \$ 81,765 | \$ 56,654 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities | | |
| Unearned Revenue - Charges for Services | \$ 4,135 | \$ 7,474 |
| Fund Balance | | |
| Nonspendable | | |
| Prepaid Items | 1 | 1,066 |
| Inventory | 15,083 | 10,110 |
| Restricted | | |
| Other Restricted | 62,546 | 38,004 |
| Total Fund Balances | 77,630 | 49,180 |
| Total Liabilities and Fund Balance | \$ 81,765 | \$ 56,654 |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | <u>2017</u> | | <u>Over (Under) Final Budget</u> | <u>2016</u> |
|-----------------------------------|-------------------------|---------------------------|--|---------------------------|
| | <u>Final Budget</u> | <u>Actual Amounts</u> | | <u>Actual Amounts</u> |
| REVENUES | | | | |
| Local Sources | | | | |
| Charges for Services | \$ 260,050 | \$ 252,898 | \$ (7,152) | \$ 258,505 |
| State Sources | 35,000 | 37,207 | 2,207 | 37,589 |
| Federal Sources | 301,310 | 313,651 | 12,341 | 302,594 |
| Total Revenues | <u>596,360</u> | <u>603,756</u> | <u>7,396</u> | <u>598,688</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Salaries | 192,398 | 206,444 | 14,046 | 208,381 |
| Employee Benefits | 51,110 | 51,628 | 518 | 66,027 |
| Purchased Services | 15,000 | 7,023 | (7,977) | (2,046) |
| Supplies and Materials | 301,860 | 302,885 | 1,025 | 297,685 |
| Other | 190 | 2,070 | 1,880 | - |
| Capital Outlay | 5,260 | 5,256 | (4) | - |
| Total Expenditures | <u>565,818</u> | <u>575,306</u> | <u>9,488</u> | <u>570,047</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 30,542</u> | 28,450 | <u>\$ (2,092)</u> | 28,641 |
| FUND BALANCE | | | | |
| Beginning of Year | | <u>49,180</u> | | <u>20,539</u> |
| END OF YEAR | | <u>\$ 77,630</u> | | <u>\$ 49,180</u> |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
BALANCE SHEET
COMMUNITY SERVICE FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

| | 2017 | 2016 |
|--|-------------|-------------|
| ASSETS | | |
| Cash and Investments | \$ 89,029 | \$ 83,211 |
| Receivables | | |
| Current Taxes | 60,012 | 64,277 |
| Delinquent Taxes | 4,187 | 4,866 |
| Due from Minnesota Department of Education | 14,276 | 11,118 |
| Total Assets | \$ 167,504 | \$ 163,472 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | |
| Liabilities | | |
| Salaries Payable | \$ 7,924 | \$ 13,815 |
| Accounts and Contracts Payable | 492 | 231 |
| Due to Other Governments | 229 | 464 |
| Unearned Revenue - Charges for Services | 6,487 | 9,938 |
| Total Liabilities | 15,132 | 24,448 |
| Deferred Inflows of Resources | | |
| Property Taxes Levied for Subsequent Year | 115,444 | 119,417 |
| Unavailable Revenue - Delinquent Taxes | 4,187 | 4,866 |
| Total Deferred Inflows of Resources | 119,631 | 124,283 |
| Fund Balances | | |
| Restricted | | |
| Community Education Programs | 29,190 | 11,926 |
| Early Childhood and Family Education Programs | 633 | 433 |
| School Readiness | 912 | 749 |
| Adult Basic Education | 1,308 | 1,308 |
| Community Service | 698 | 325 |
| Total Fund Balances | 32,741 | 14,741 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 167,504 | \$ 163,472 |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | <u>2017</u> | | <u>Over (Under) Final Budget</u> | <u>2016</u> |
|-----------------------------------|-------------------------|---------------------------|--|---------------------------|
| | <u>Final Budget</u> | <u>Actual Amounts</u> | | <u>Actual Amounts</u> |
| REVENUES | | | | |
| Local Sources | | | | |
| Property Taxes | \$ 105,154 | \$ 108,287 | \$ 3,133 | \$ 115,638 |
| Charges for Services | 51,100 | 49,991 | (1,109) | 48,893 |
| Other | 1,093 | 1,381 | 288 | 2,305 |
| State Sources | 170,004 | 173,842 | 3,838 | 165,522 |
| Total Revenues | <u>327,351</u> | <u>333,501</u> | <u>6,150</u> | <u>332,358</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Salaries | 204,208 | 204,468 | 260 | 229,325 |
| Employee Benefits | 49,907 | 46,995 | (2,912) | 59,949 |
| Purchased Services | 39,098 | 30,996 | (8,102) | 32,077 |
| Supplies and Materials | 33,239 | 32,769 | (470) | 20,784 |
| Other Expenditures | 75 | 273 | 198 | 434 |
| Total Expenditures | <u>326,527</u> | <u>315,501</u> | <u>(11,026)</u> | <u>342,569</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 824</u> | 18,000 | <u>\$ 17,176</u> | (10,211) |
| FUND BALANCE | | | | |
| Beginning of Year | | <u>14,741</u> | | <u>24,952</u> |
| END OF YEAR | | <u>\$ 32,741</u> | | <u>\$ 14,741</u> |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

| | 2017 | 2016 |
|--|-------------|-------------|
| ASSETS | | |
| Cash and Investments | \$ 84,600 | \$ 87,182 |
| Receivables | | |
| Current Taxes | 57,248 | 63,040 |
| Delinquent Taxes | 5,012 | 6,383 |
| Due from Minnesota Department of Education | 6,275 | 1,658 |
| Total Assets | \$ 153,135 | \$ 158,263 |
| DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | |
| Deferred Inflows of Resources | | |
| Property Taxes Levied for Subsequent Years | \$ 110,110 | \$ 117,145 |
| Deferred Revenue - Delinquent Taxes | 5,012 | 6,383 |
| Total Deferred Inflows of Resources | 115,122 | 123,528 |
| Fund Balances | | |
| Restricted | | |
| Restricted for Debt Service | 38,013 | 34,735 |
| Total Deferred Inflows of Resources and Fund Balances | \$ 153,135 | \$ 158,263 |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

| | <u>2017</u> | | <u>Over (Under) Final Budget</u> | <u>2016</u> |
|-----------------------------------|---------------------------------------|---------------------------|--|---------------------------|
| | <u>Final Budgeted Amounts</u> | <u>Actual Amounts</u> | | <u>Actual Amounts</u> |
| REVENUES | | | | |
| Local Sources | | | | |
| Property Tax | \$ 103,181 | \$ 104,490 | \$ 1,309 | \$ 145,010 |
| State Sources | 62,289 | 62,751 | 462 | 16,584 |
| Total Revenues | <u>165,470</u> | <u>167,241</u> | <u>1,771</u> | <u>161,594</u> |
| EXPENDITURES | | | | |
| Debt Service | | | | |
| Bond Principal | 120,000 | 125,000 | 5,000 | 120,000 |
| Bond Interest | 41,800 | 38,963 | (2,837) | 41,363 |
| Total Expenditures | <u>161,800</u> | <u>163,963</u> | <u>2,163</u> | <u>161,363</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 3,670</u> | 3,278 | <u>\$ (392)</u> | 231 |
| Fund Balance - Beginning of Year | | <u>34,735</u> | | <u>34,504</u> |
| FUND BALANCE - END OF YEAR | | <u>\$ 38,013</u> | | <u>\$ 34,735</u> |

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2017**

| | Audit | UFARS | Audit-UFARS | | Audit | UFARS | Audit-UFARS |
|--------------------------------|---------------|---------------|-------------|----------------------------------|------------|------------|-------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenues | \$ 13,010,617 | \$ 13,010,620 | \$ (3) | Total Revenues | \$ - | \$ - | \$ - |
| Total Expenditures | \$ 12,708,154 | \$ 12,708,158 | \$ (4) | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Non Spendable:</i> | | | | <i>Non Spendable:</i> | | | |
| 460 Non Spendable Fund Balance | \$ 65,819 | \$ 65,819 | \$ - | 460 Non Spendable Fund Balance | \$ - | \$ - | \$ - |
| <i>Restricted/Reserve:</i> | | | | <i>Restricted/Reserve:</i> | | | |
| 403 Staff Development | \$ 114,753 | \$ 114,753 | \$ - | 407 Capital Projects Levy | \$ - | \$ - | \$ - |
| 405 Deferred Maintenance | \$ - | \$ - | \$ - | 409 Alternative Fac. Program | \$ - | \$ - | \$ - |
| 406 Health & Safety | \$ 5,617 | \$ 5,617 | \$ - | 413 Project Funded by COP | \$ - | \$ - | \$ - |
| 407 Capital Project Levy | \$ - | \$ - | \$ - | <i>Restricted:</i> | | | |
| 408 Cooperative Rev. | \$ - | \$ - | \$ - | 464 Restricted Fund Balance | \$ - | \$ - | \$ - |
| 409 Deferred Maintenance | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| 414 Operating Debt | \$ - | \$ - | \$ - | 463 Unassigned Fund Balance | \$ - | \$ - | \$ - |
| 416 Levy Reduction | \$ - | \$ - | \$ - | 07 DEBT SERVICE | | | |
| 419 Encumbrances | \$ - | \$ - | \$ - | Total Revenues | \$ 167,241 | \$ 167,241 | \$ - |
| 423 Certain Teacher Programs | \$ - | \$ - | \$ - | Total Expenditures | \$ 163,963 | \$ 163,963 | \$ - |
| 424 Operating Capital | \$ 370,223 | \$ 370,223 | \$ - | <i>Non Spendable:</i> | | | |
| 426 \$25 Taconite | \$ - | \$ - | \$ - | 460 Non Spendable Fund Balance | \$ - | \$ - | \$ - |
| 427 Disabled Accessibility | \$ - | \$ - | \$ - | <i>Restricted/Reserve:</i> | | | |
| 428 Learning & Development | \$ - | \$ - | \$ - | 425 Bond Refundings | \$ - | \$ - | \$ - |
| 434 Area Learning Center | \$ - | \$ - | \$ - | 451 QZAB Payments | \$ - | \$ - | \$ - |
| 435 Contracted Alt. Programs | \$ - | \$ - | \$ - | <i>Restricted:</i> | | | |
| 436 St. Approved Alt. Prog. | \$ - | \$ - | \$ - | 464 Restricted Fund Balance | \$ 38,013 | \$ 38,015 | \$ (2) |
| 438 Gifted & Talented | \$ - | \$ - | \$ - | <i>Unassigned:</i> | | | |
| 441 Basic Skills | \$ - | \$ - | \$ - | 463 Unassigned Fund Balance | \$ - | \$ - | \$ - |
| 443 Telecomm. Access Cost | \$ - | \$ - | \$ - | 08 TRUST | | | |
| 446 First Grade Preparedness | \$ - | \$ - | \$ - | Total Revenues | \$ 31,585 | \$ 31,585 | \$ - |
| 449 Safe Schools Levy | \$ - | \$ - | \$ - | Total Expenditures | \$ 3,000 | \$ 3,000 | \$ - |
| 450 Pre-Kindergarten | \$ - | \$ - | \$ - | 422 Net Position | \$ 70,780 | \$ 70,780 | \$ - |
| 451 QZAB Payments | \$ - | \$ - | \$ - | 20 INTERNAL SERVICE | | | |
| 467 LTFM | \$ 13,358 | \$ 13,358 | \$ - | Total Revenues | \$ - | \$ - | \$ - |
| 472 Medical Assistance | \$ 128,641 | \$ 128,641 | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | | 422 Net Position | | | |
| 464 Restricted Fund Balance | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <i>Committed:</i> | | | | 25 OPEB REVOCABLE TRUST | | | |
| 418 Committed for Separation | \$ - | \$ - | \$ - | Total Revenues | \$ - | \$ - | \$ - |
| 461 Committed Fund Balance | \$ 6,190 | \$ 6,190 | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| <i>Assigned:</i> | | | | 422 Net Position | | | |
| 462 Assigned Fund Balance | \$ 90,080 | \$ 90,079 | \$ 1 | \$ - | \$ - | \$ - | \$ - |
| <i>Unassigned:</i> | | | | 45 OPEB IRREVOCABLE TRUST | | | |
| 422 Unassigned Fund Balance | \$ 3,053,425 | \$ 3,053,423 | \$ 2 | Total Revenues | \$ - | \$ - | \$ - |
| 02 FOOD SERVICE | | | | Total Expenditures | | | |
| Total Revenues | \$ 603,756 | \$ 603,755 | \$ 1 | \$ - | \$ - | \$ - | \$ - |
| Total Expenditures | \$ 575,306 | \$ 575,305 | \$ 1 | 422 Net Position | | | |
| <i>Non Spendable:</i> | | | | \$ - | \$ - | \$ - | \$ - |
| 460 Non Spendable Fund Balance | \$ 15,084 | \$ 15,083 | \$ 1 | 47 OPEB DEBT SERVICE | | | |
| <i>Restricted:</i> | | | | Total Revenues | \$ - | \$ - | \$ - |
| 452 OPEB Liab. Not in Trust | \$ - | \$ - | \$ - | Total Expenditures | \$ - | \$ - | \$ - |
| 464 Restricted Fund Balance | \$ 62,546 | \$ 62,548 | \$ (2) | <i>Non Spendable:</i> | | | |
| <i>Unassigned:</i> | | | | 460 Non Spendable Fund Balance | | | |
| 463 Unassigned Fund Balance | \$ - | \$ - | \$ - | <i>Restricted:</i> | | | |
| 04 COMMUNITY SERVICE | | | | 425 Bond Refundings | | | |
| Total Revenues | \$ 333,501 | \$ 333,500 | \$ 1 | \$ - | \$ - | \$ - | \$ - |
| Total Expenditures | \$ 315,501 | \$ 315,500 | \$ 1 | 464 Restricted Fund Balance | | | |
| <i>Non Spendable:</i> | | | | <i>Unassigned:</i> | | | |
| 460 Non Spendable Fund Balance | \$ - | \$ - | \$ - | 463 Unassigned Fund Balance | \$ - | \$ - | \$ - |
| <i>Restricted/Reserve:</i> | | | | | | | |
| 426 \$25 Taconite | \$ - | \$ - | \$ - | | | | |
| 431 Community Education | \$ 29,190 | \$ 29,190 | \$ - | | | | |
| 432 E.C.F.E. | \$ 633 | \$ 633 | \$ - | | | | |
| 444 School Readiness | \$ 912 | \$ 912 | \$ - | | | | |
| 447 Adult Basic Education | \$ 1,308 | \$ 1,308 | \$ - | | | | |
| 452 OPEB Liab. Not in Trust | \$ - | \$ - | \$ - | | | | |
| <i>Restricted:</i> | | | | | | | |
| 464 Restricted Fund Balance | \$ 698 | \$ 698 | \$ - | | | | |
| <i>Unassigned:</i> | | | | | | | |
| 463 Unassigned Fund Balance | \$ - | \$ - | \$ - | | | | |

SINGLE AUDIT AND OTHER REQUIRED REPORTS



**INDEPENDENT AUDITORS' 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**

Board of Education
Independent School District No. 361
International Falls Public Schools
International 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. 361 (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs, listed as 2017-001 and 2017-002, that we considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of 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*.

The District’s Responses to Findings

The District’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District’s responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
November 20, 2017

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

Board of Education
Independent School District No. 361
International Falls Public Schools
International Falls, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 361's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the District 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 a 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.

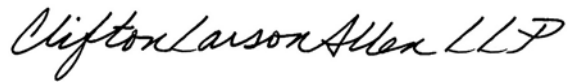
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material 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 significant deficiencies. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004 that we consider to be material weaknesses.

Report on Internal Control Over Compliance (Continued)

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this 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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
November 20, 2017

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**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

| FEDERAL AGENCY/ PASS-THROUGH GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | PASS-THROUGH GRANTOR'S NUMBER | FEDERAL EXPENDITURES |
|--|---------------------------|-------------------------------------|-------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed Through Minnesota Department of Agriculture: | | | |
| Child Nutrition Cluster: | | | |
| Non-Cash Assistance (Commodities): | | | |
| National School Lunch Program | 10.555 | N/A | \$ 48,407 |
| Cash Assistance: | | | |
| School Breakfast Program | 10.553 | N/A | 64,569 |
| National School Lunch Program | 10.555 | N/A | 200,675 |
| Cash Assistance Subtotal | | | <u>265,244</u> |
| Total Child Nutrition Cluster/U.S. Department of Agriculture | | | 313,651 |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed Through Minnesota Department of Education: | | | |
| Cash Assistance: | | | |
| Title II, Part A - Improving Teacher Quality | 84.367 | S367A140022 | 81,629 |
| Carl Perkins Vocational and Applied Technology | 84.048 | N/A | 8,193 |
| Title VII - Indian Education | 84.060 | N/A | 19,588 |
| MN Dept of Human Services Alcohol & Drug Abuse Prevention | 93.959 | 2B08TI010027-15 | 160,076 |
| Special Education Cluster: | | | |
| Special Education | 84.027 | H027A140087 | 215,902 |
| Title I, Part A Cluster: | | | |
| Title I, Part A | 84.010 | S010A140023A | <u>301,076</u> |
| Total U.S. Department of Education | | | <u>786,464</u> |
| Total Federal Awards Expended | | | <u>\$ 1,100,115</u> |

Notes to Schedule of Expenditures of Federal Awards:

Note 1:

The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Independent School District No. 361.

Note 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the basic financial statements of the District. The District has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

Note 3:

N/A - The pass-through entity identifying number is unknown.

Note 4:

The total of CFDA No. 10.555 is \$249,082

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 361
International Falls Public Schools
International 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 *Governmental Auditing Standards* issued by the Comptroller of the United States, the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 361 (the District), Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents and have issued our report thereon dated November 20, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts* contains seven main 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.

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.

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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
November 20, 2017

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**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) 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? X yes no
- Significant deficiency(ies) identified? yes X none reported

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

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

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|
| 84.010 | Title I |
| 10.553 and 10.555 | Child Nutrition Cluster |

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

Auditee qualified as low-risk auditee? yes X no

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2017-001 – Financial Statement Preparation

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with generally accepted accounting principles (GAAP).

Condition: The District does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

Context: Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Stacy Grover, Business Manager

Corrective Action Plan: The District will continue to have the audit firm prepare the financial statements; however, the District has established internal control procedures to document the annual review of the financial statements.

Anticipated Completion Date: June 30, 2018.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2017-002 - Segregation of Duties

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The District has a limited number of office personnel and accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties.

Cause: The District's resources have not allowed for additional personnel to address this issue.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve efficiency and effectiveness of financial management of the District.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Stacy Grover, Business Manager

Corrective Action Plan: The District reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

Anticipated Completion Date: June 30, 2018.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

C. FINDINGS – FEDERAL AWARD PROGRAMS

Finding 2017-003

Federal Agency: U.S. Department of Agriculture

Federal Program: Child Nutrition Cluster

CFDA Number: 10.553 and 10.555

Pass-Through Agency: Minnesota Department of Education

Pass-Through Numbers: Not applicable

Award Period: July 1, 2016 – June 30, 2017

Type of Finding: Material Weakness over Internal Control and Other Matters

Criteria: Under Uniform Grant Guidance §200.320, *Methods of Procurement*, small purchases are required to have more than one quote obtained.

Condition/Context: Two out of four vendors tested, more than one quote was not obtained.

Questioned Costs: Not applicable.

Cause: The District did not follow the procedures in place.

Possible Effect: Noncompliance with Uniform Guidance and federal reimbursement was received for expenditures not eligible for reimbursement.

Repeat Finding: Not applicable.

Recommendation: We recommend the District follow board approved policies, which follows the Uniform Guidance standards.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Stacy Grover, Business Manager

Corrective Action Plan: A corrective action plan is in place.

Anticipated Completion Date: June 30, 2018.

**INTERNATIONAL FALLS PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 361
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

C. FINDINGS – FEDERAL AWARD PROGRAMS (CONTINUED)

Finding 2017-004

Federal Agency: U.S. Department of Education

Federal Program: Title I, Part A Cluster

CFDA Number: 84.010

Pass-Through Agency: Minnesota Department of Education

Pass-Through Numbers: S010A140023A

Award Period: July 1, 2016 – June 30, 2017

Type of Finding: Material Weakness over Internal Control and Other Matters

Criteria: The District is required to obtain a Personal Activity Report for any employee not charged one hundred percent to one federal grant prior to payment for services provided.

Condition/Context: Two out of 11 payroll transactions tested, the Personal Activity Report was not obtained prior to payment.

Questioned Costs: Not applicable.

Cause: The District did not follow procedures in place.

Possible Effect: Noncompliance with Uniform Guidance and federal reimbursement was received for expenditures not eligible for reimbursement.

Repeat Finding: Not applicable.

Recommendation: We recommend the District follow procedures in place to ensure all required forms are submitted prior to payment.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Stacy Grover, Business Manager

Corrective Action Plan: A corrective action plan is in place.

Anticipated Completion Date: June 30, 2018.

Member _____ introduced the following resolution and moved its adoption:

RESOLUTION PROVIDING FOR THE SALE OF GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2018A; AND COVENANTING AND OBLIGATING THE DISTRICT TO BE BOUND BY AND TO USE THE PROVISIONS OF MINNESOTA STATUTES, SECTION 126C.55 TO GUARANTEE THE PAYMENT OF THE PRINCIPAL AND INTEREST ON THESE BONDS

BE IT RESOLVED by the School Board of Independent School District No. 361 (International Falls), Minnesota, as follows:

1. Bond Authorization. The School Board has determined that it is necessary and expedient to issue \$1,700,000 General Obligation School Building Bonds, Series 2018A.

2. Sale. The District has retained Ehlers & Associates, Inc. (Ehlers) in Roseville, Minnesota, as its independent municipal advisor for the Bonds. Ehlers is authorized to solicit proposals in accordance with Minnesota Statutes, Section 475.60, Subdivision 2(9). If the issuance of the Bonds is approved, the School Board shall meet at the time and place specified in the Official Statement to receive and consider proposals for the purchase of the Bonds.

3. Official Statement; Negotiation of Sale. Ehlers is authorized to prepare and distribute an Official Statement and to open, read and tabulate the proposals for presentation to the Board.

4. Minnesota School District Credit Enhancement Program. (a) The District hereby covenants and obligates itself to notify the Commissioner of Education of a potential default in the payment of principal and interest on the Bonds and to use the provisions of Minnesota Statutes, Section 126C.55 to guarantee payment of the principal and interest on the Bonds when due. The District further covenants to deposit with the Registrar or any successor paying agent three (3) days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of that payment. The Registrar for the Bonds is authorized and directed to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal or interest on the Bonds or if, on the day two (2) business days prior to the date a payment is due on the Bonds, there are insufficient funds to make that payment on deposit with the Registrar. The District understands that as a result of its covenant to be bound by the provision of Minnesota Statutes, Section 126C.55, the provisions of that section shall be binding as long as any Bonds of this issue remain outstanding.

(b) The District further covenants to comply with all procedures now and hereafter established by the Departments of Management and Budget and Education of the State of Minnesota pursuant to Minnesota Statutes, Section 126C.55, subdivision 2(c) and otherwise to take such actions as necessary to comply with that section. The chair, clerk, superintendent or business manager is authorized to execute any applicable Minnesota Department of Education forms.

The motion for adoption of the foregoing resolution was duly seconded by Member _____, and upon vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

whereupon the resolution was declared duly passed and adopted.



November 28, 2017

Pre-Sale Report for

Independent School District No. 361
(International Falls), Minnesota

\$1,700,000 General Obligation School Building Bonds,
Series 2018A



Prepared by:

Joel Sutter, CIPMA
Senior Municipal Advisor

And

Shelby McQuay
Municipal Advisor



Executive Summary of Proposed Debt

| | |
|---------------------------|---|
| Proposed Issue: | <p>\$1,700,000 General Obligation School Building Bonds, Series 2018A</p> <p>District voters authorized the issuance of up to \$1,750,000 in bonds in a referendum held on November 7, 2017. This bond amount is our current estimate of the bond amount necessary based on that authorization and the expected premium pricing structure (explained in more detail on page 2).</p> |
| Purposes: | <p>The proposed issue will finance the acquisition and betterment of school sites and facilities, including repairs and improvements to the District's ice arena.</p> |
| Authority: | <p>The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, and will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Debt service will be paid from property tax levies.</p> |
| Term/Call Feature: | <p>The Bonds are being issued for a term of 10 years. Principal on the Bonds will be due on February 1 of 2019 through 2028. Interest is payable every six months beginning August 1, 2018.</p> <p>The Bonds are being offered without option of prior redemption.</p> |
| Bank Qualification: | <p>Because the District is expecting to issue no more than \$10,000,000 in tax exempt debt during the calendar year, the District will be able to designate the Bonds as "bank qualified" obligations. Bank qualified status broadens the market for the Bonds, which can result in lower interest rates.</p> |
| State Credit Enhancement: | <p>By resolution the District will covenant and obligate itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation. To qualify for the credit enhancement, the District must submit an application to the State. Ehlers will coordinate the application process on your behalf.</p> |
| Rating: | <p>Under current bond ratings, the state credit enhancement would bring a Standard & Poor's "AA+" rating.</p> <p>The District's existing bonds are rated "AA+" (credit-enhanced rating) by Standard & Poor's. The District will request a new credit-enhanced rating from Standard & Poor's for the Bonds, but Ehlers does not recommend that the District incur the additional expense for an underlying rating.</p> |



| | |
|--|---|
| <p>Basis for Recommendation:</p> | <p>Based on your objectives and characteristics of various municipal financing options, we are recommending the issuance of General Obligation School Building Bonds as a suitable option to finance the planned projects.</p> <ul style="list-style-type: none"> • General Obligation Bonds will result in lower interest rates than some other financing options. • Unlike with some other financing options, the District will be able to finance the payments with an additional debt service levy. • This is also consistent with the District’s plans communicated to the community prior to the upcoming election. |
| <p>Method of Sale/Placement:</p> | <p>In order to obtain the lowest interest cost to the District, we will solicit competitive bids for the purchase of the Bonds from banks and underwriters.</p> <p>We have included an allowance for discount bidding equal to 1.00% of the principal amount of the issue. The discount is treated as an interest item and provides the underwriter with all or a portion of their compensation in the transaction.</p> |
| <p>Premium Pricing Structure:</p> | <p>Under current market conditions, most investors in municipal bonds prefer “premium” pricing structures. A premium is achieved when the coupon for any maturity (the interest rate paid by the issuer) exceeds the yield to the investor, resulting in a price paid that is greater than the face value of the bonds. The sum of the amounts paid in excess of face value is considered “reoffering premium.” The underwriter of the bonds will retain a portion of this reoffering premium as their compensation (or “discount”), but will pay the remainder of the premium to the District. Any premium received will either be used to reduce the Principal amount of the new bonds or will be deposited in the debt service fund and used to fund a portion of the first years’ payments.</p> |
| <p>Other Considerations:</p> | <p>The most common procedure that Ehlers uses for the sale of bonds is to take proposals on the same day as a Board meeting and ask the Board to award sale of the bonds that same day. However, the January board meeting is on January 15, and we cannot take proposals on that date because it is a holiday. So we recommend a slightly different procedure for the sale. The resolution the Board will consider at the December 18th meeting will authorize Ehlers to take proposals on the Bonds, and will designate a Board Officer and the Superintendent or Business Manager to accept the most favorable proposal if certain conditions (or “parameters”) specified in the resolution are met, thereby awarding the sale of the Bonds. We intend to accept proposals on Wednesday, January 10th, and present the results to the designated Board Officer and the Superintendent or Business Manager for their authorization on behalf of the Board. We will then ask the board to adopt a ratifying resolution at the January 15th regular Board Meeting.</p> |
| <p>Review of Existing Debt:</p> | <p>We have reviewed all outstanding indebtedness for the District and find that there are no refunding opportunities at this time.</p> <p>We will continue to monitor the market and the call dates for the District’s outstanding debt and will alert you to any future refunding opportunities.</p> |



| | |
|--------------------------|--|
| Continuing Disclosure: | The District will be agreeing to provide its Audited Financial Statements annually as well as providing notices of the occurrence of certain reportable events to the Municipal Securities Rulemaking Board (the “MSRB”), as required by rules of the Securities and Exchange Commission (SEC). The District is already obligated to provide such reports for its existing bonds, and has contracted with Ehlers to prepare and file the reports. |
| Arbitrage Monitoring: | Because the Bonds are tax-exempt obligations, the District must ensure compliance with certain Internal Revenue Service (IRS) rules throughout the life of the issue. These rules apply to all gross proceeds of the issue, including initial bond proceeds and investment earnings in construction, escrow, debt service, and any reserve funds. How issuers spend bond proceeds and how they track interest earnings on funds (arbitrage/yield restriction compliance) are common subjects of IRS inquiries. Your specific responsibilities will be detailed in the Nonarbitrage Certificate prepared by your Bond Attorney and provided at closing. We recommend that you regularly monitor compliance with these rules and/or retain the services of a qualified firm to assist you. We also recommend that you establish written procedures regarding compliance with IRS rules. |
| Other Service Providers: | <p>This debt issuance will require the engagement of other public finance service providers. This section identifies those other service providers, so Ehlers can coordinate their engagement on your behalf. Where you have previously used a particular firm to provide a service, we have assumed that you will continue that relationship. Fees charged by these service providers will be paid from proceeds of the bond issue, unless you notify us that you wish to pay them from other sources. Our pre-sale bond sizing includes a good faith estimate of these fees, so their final fees may vary. If you have any questions pertaining to the identified service providers or their role, or if you would like to use a different service provider for any of the listed services please contact us.</p> <p>Bond Attorney: Knutson, Flynn & Deans, P.A.</p> <p>Paying Agent: Bond Trust Services Corporation</p> <p>Rating Agency: Standard & Poor’s</p> |

This presale report summarizes our understanding of the District’s objectives for the structure and terms of this financing as of this date. As additional facts become known or capital markets conditions change, we may need to modify the structure and/or terms of this financing to achieve results consistent with the District’s objectives.



Proposed Debt Issuance Schedule

| | |
|--|---------------------------|
| Pre-Sale Review by School Board and Adopt Credit Enhancement Resolution: | November 28, 2017 |
| School Board Meeting to Approve Parameters Resolution: | December 18, 2017 |
| Distribute Official Statement: | Week of December 26, 2017 |
| Ehlers Receives and Evaluates Proposals; Designated Officials Award Sale of the Bonds: | January 10, 2018 |
| School Board Meeting to Ratify Sale of the Bonds: | January 15, 2017 |
| Estimated Closing Date: | February 1, 2018 |

Attachments

Estimated Sources and Uses of Funds

Estimated Debt Plan, Including Payments and Levies for Existing Debt and 2017A Bonds

Estimated Tax Impact

Resolution Authorizing Ehlers to Proceed with Bond Sale/Credit Enhancement Resolution (provided separately)

Ehlers Contacts

| | | |
|-------------------------|-------------------|----------------|
| Municipal Advisors: | Joel Sutter | (651) 697-8514 |
| | Shelby McQuay | (651) 697-8548 |
| Disclosure Coordinator: | Charissa Brookley | (651) 697-8573 |
| Financial Analyst: | Brian Shannon | (651) 697-8515 |

The Official Statement for this financing will be mailed to the School Board at their home address or e-mailed for review prior to the sale date.



PRE-SALE ESTIMATES

International Falls School District No. 361

Estimated Sources and Uses for Bond Issue
 General Obligation School Building Bonds
 November 22, 2017

| | Estimates Prior to Election | Pre-Sale Estimates |
|--|------------------------------------|---------------------------|
| Bond Amount | \$1,750,000 | \$1,700,000 |
| Election | November 2017 | |
| Number of Years (Tax Levies) | 10 | 10 |
| Dated | 2/1/2018 | 2/1/2018 |
| Sources of Funds | | |
| Par Amount | \$1,750,000 | \$1,700,000 |
| Estimated Bond Premium | 0 | 50,515 |
| Estimated Investment Earnings * | 848 | 823 |
| Total Sources | \$1,750,848 | \$1,751,338 |
| Uses of Funds | | |
| Allowance for Discount Bidding | \$17,500 | \$17,000 |
| Legal and Fiscal Costs # | 37,075 | 37,075 |
| Net Available for Project Costs | 1,696,273 | 1,697,263 |
| Total Uses | \$1,750,848 | \$1,751,338 |

* Estimated investment earnings are based on an average interest rate of 0.75%, and an average life of 6 months.

Includes fees for municipal advisor, bond counsel, rating agency, paying agent and county certificates.

PRE-SALE ESTIMATES

International Falls School District No. 361

Estimated Payments and Tax Levies for Existing Debt and Proposed New Debt

**\$1,700,000 Bond Issue
November 2017 Election
10 Years; Wrapped Around Existing Debt**

| | |
|---------------------|-------------|
| Principal Amount: | \$1,700,000 |
| Dated Date: | 2/1/2018 |
| Avg. Interest Rate: | 2.66% |

November 22, 2017

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| Levy Pay. Year | Fiscal Year | Tax Capacity Value ¹ (\$000s) | | Existing Commitments | | | | Proposed New Debt | | | | Combined Totals | | | |
|----------------|-------------|--|------|-----------------------------|-------------------------------|------------------|----------|-------------------|----------------|-------------------------------|--------------------|--------------------|----------------|------------------|----------|
| | | | | Building Bonds ² | Est. Debt Excess ³ | Net Levy | Tax Rate | Principal | Interest | Est. Debt Excess ³ | Adjusted Debt Levy | Adjusted Debt Levy | State Debt Aid | Net Levy | Tax Rate |
| 2017 | 2018 | 7,491 | 4.8% | 174,313 | (13,219) | 161,094 | 2.15 | - | - | - | - | 161,094 | - | 161,094 | 2.15 |
| 2018 | 2019 | 7,641 | 2.0% | 171,583 | (6,549) | 165,034 | 2.16 | 115,000 | 51,000 | 6,549 ⁴ | 175,926 | 340,961 | - | 340,961 | 4.46 |
| 2019 | 2020 | 7,641 | 0.0% | 173,762 | (6,863) | 166,899 | 2.18 | 120,000 | 47,550 | - | 175,928 | 342,826 | - | 342,826 | 4.49 |
| 2020 | 2021 | 7,641 | 0.0% | 175,610 | (6,950) | 168,659 | 2.21 | 120,000 | 43,950 | - | 172,148 | 340,807 | - | 340,807 | 4.46 |
| 2021 | 2022 | 7,641 | 0.0% | 176,964 | (7,024) | 169,940 | 2.22 | 130,000 | 40,350 | (6,886) | 171,637 | 341,577 | - | 341,577 | 4.47 |
| 2022 | 2023 | 7,641 | 0.0% | 172,701 | (7,079) | 165,623 | 2.17 | 140,000 | 36,450 | (6,865) | 178,064 | 343,687 | - | 343,687 | 4.50 |
| 2023 | 2024 | 7,641 | 0.0% | 173,384 | (6,908) | 166,476 | 2.18 | 140,000 | 32,250 | (7,123) | 173,384 | 339,860 | - | 339,860 | 4.45 |
| 2024 | 2025 | 7,641 | 0.0% | 173,751 | (6,935) | 166,816 | 2.18 | 145,000 | 28,050 | (6,935) | 174,420 | 341,236 | - | 341,236 | 4.47 |
| 2025 | 2026 | 7,641 | 0.0% | 173,712 | (6,950) | 166,762 | 2.18 | 150,000 | 23,700 | (6,977) | 175,059 | 341,821 | - | 341,821 | 4.47 |
| 2026 | 2027 | 7,641 | 0.0% | - | - | - | - | 315,000 | 19,200 | (7,002) | 343,558 | 343,558 | - | 343,558 | 4.50 |
| 2027 | 2028 | 7,641 | 0.0% | - | - | - | - | 325,000 | 9,750 | (13,742) | 337,058 | 337,058 | - | 337,058 | 4.41 |
| 2028 | 2029 | 7,641 | 0.0% | - | - | - | - | - | - | - | - | - | - | - | - |
| 2029 | 2030 | 7,641 | 0.0% | - | - | - | - | - | - | - | - | - | - | - | - |
| Totals | | | | 1,565,781 | (68,478) | 1,497,303 | | 1,700,000 | 332,250 | (48,982) | 2,077,182 | 3,574,485 | 0 | 3,574,485 | |

- 1 Tax capacity value for taxes payable in 2017 is the actual final value, and the value for 2018 is based on a preliminary figure from the county.
- 2 Initial debt service levies (prior to subtracting debt equalization aid) are set at 105 percent of the principal and interest payments during the next fiscal year.
- 3 Debt excess adjustments for taxes payable in 2017 and 2018 are actual amounts. Debt excess for future years is estimated at 4% of the prior year's initial debt service levy.

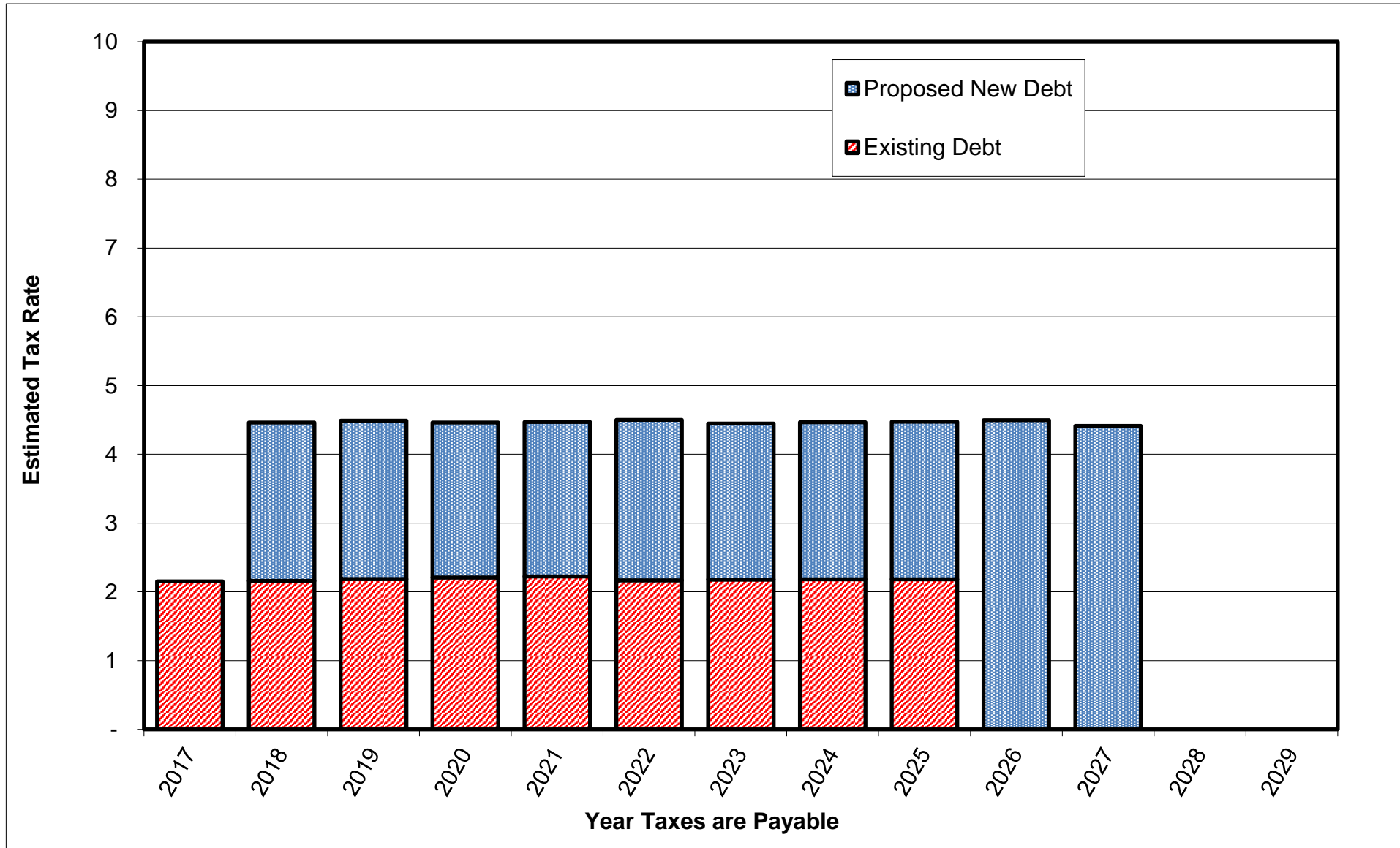


PRE-SALE ESTIMATES

International Falls School District No. 361
Estimated Tax Rates for Capital and Debt Service Levies
Existing Commitments and Proposed New Debt

\$1,700,000 Bond Issue
November 2017 Election
10 Years; Wrapped Around Existing Debt

Date Prepared: November 22, 2017



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PRE-SALE ESTIMATES

International Falls School District No. 361
Analysis of Tax Impact for Proposed Bond Issue

November 22, 2017

| | Estimates Prior to Election | Pre-Sale Estimates |
|---|------------------------------------|---------------------------|
| Bond Issue Amount | \$1,750,000 | \$1,700,000 |
| Average Interest Rate | 2.90% | 2.66% |
| Number of Years | 10 | 10 |
| Estimated Tax Capacity Rate Increase | 2.37% | 2.30% |

| Type of Property | Estimated Market Value | Estimated Tax Impact Payable 2018* | |
|--|------------------------|------------------------------------|--------|
| | | | |
| Residential Homestead | \$50,000 | \$7 | \$7 |
| | 75,000 | 11 | 10 |
| | 100,000 | 17 | 17 |
| | 125,000 | 23 | 23 |
| | 175,000 | 36 | 35 |
| | 200,000 | 43 | 42 |
| | 250,000 | 56 | 54 |
| Commercial/ Industrial | 300,000 | 69 | 67 |
| | \$50,000 | \$18 | \$17 |
| | 100,000 | 36 | 35 |
| | 250,000 | 101 | 98 |
| Agricultural Homestead** (average value per acre of land & buildings) | 500,000 | 219 | 213 |
| | \$2,000 | \$0.14 | \$0.14 |
| | 3,000 | 0.21 | 0.21 |
| | 4,000 | 0.28 | 0.28 |
| | 5,000 | 0.36 | 0.35 |
| Agricultural Non-Homestead** (average value per acre of land & buildings) | 6,000 | 0.43 | 0.41 |
| | \$2,000 | \$0.28 | \$0.28 |
| | 3,000 | 0.43 | 0.41 |
| | 4,000 | 0.57 | 0.55 |
| | 5,000 | 0.71 | 0.69 |
| Seasonal Recreational Residential | 6,000 | 0.85 | 0.83 |
| | \$50,000 | \$12 | \$12 |
| | 100,000 | 24 | 23 |
| | 150,000 | 36 | 35 |
| | 200,000 | 47 | 46 |
| | 300,000 | 71 | 69 |
| | 500,000 | 119 | 115 |

* Estimated tax impact includes principal and interest payments on the new bonds. The figures in the table are based on school district taxes for bonded debt levies only, and do not include tax levies for other purposes. Tax increases shown above are gross increases, not including the impact of the homeowner's Homestead Credit Refund ("Circuit Breaker") program. Many owners of homestead property will qualify for a refund, based on their income and total property taxes. This will decrease the net effect of the proposed bond issue for many property owners.

** Estimated tax impact includes 40% reduction due to the School Building Bond Agricultural Credit. Average value per acre is the total assessed value of all land & buildings divided by total acres. Homestead examples exclude the house, garage, and one acre, which has the same tax impact as a residential homestead.

**SCHOOL DISTRICT CREDIT ENHANCEMENT
APPLICATION FOR PROGRAM
PARTICIPATION**

GENERAL INFORMATION AND INSTRUCTIONS: To ensure participation in the Credit Enhancement Program (CEP), a school district or intermediate school district must covenant and obligate itself to be bound by Minnesota Statutes, section 126C.55 prior to the issuance of debt obligations. The statute defines debt obligation as tax or aid anticipation certificates, certificates of participation, or general obligation bonds and provides a procedure for the State to preclude payment default on these debt obligations issued by school districts. The purpose of this application is to (1) inform the Minnesota Department of Education (MDE) that participation in the program is desired; (2) identify and provide information related to the Paying Agent and (3) request a certification providing evidence of State participation in the program. Please return the completed application and the signed copies to the above address. Maintain in the school district files copies of the board resolution, corresponding meeting minutes and all CEP documentation for any future state verification requests **(Unless requested, please DO NOT send CEP documentation to MDE).**

TO BE COMPLETED BY THE SCHOOL DISTRICT OR PAYING AGENT

Name of School District: _____ District Number: _____ District Type: _____

Name of District Contact Person/Title: _____ Telephone Number: _____ E-Mail Address: _____

BOND/CERTIFICATION INFORMATION

| | | |
|--|---|--|
| Total Estimated Amount to be Issued: \$ | Bond or Certificate Type, Description and Series: | FOR BONDS , send <i>final</i> maturity schedules (Excel format) as soon as available. |
|--|---|--|

Anticipated Bond Sale Date: _____ Dated Date: _____ Maturity Date for Certificates: _____

| | | | |
|--|---|-----|----|
| BONDS REQUIRE VOTER OR MDE APPROVAL | Is the debt LONG-TERM FACILITIES MAINTENANCE (LTFM) bonds? | YES | NO |
| | Is voter approval required? | YES | NO |
| | If YES, did the question pass? | YES | NO |
| | Is MDE approval required? | YES | NO |
| | If YES, record date of Commissioner approval. | | |
| REFUNDING | If this is a REFUNDING issue, were the original bonds in the Credit Enhancement Program? If YES, provide Complete Description, Dated Date, Series and Maturities of original bonds to be refunded: | YES | NO |
| | Provide a schedule of debt service the issuer remains responsible to pay after the refunding. | | |
| AID ANTICIPATION CERTIFICATES | Request for Commissioner approval submitted to MDE? Record date of Commissioner approval. | YES | NO |
| | Record 75 percent Commissioner approved amount. | \$ | |
| TAX ANTICIPATION CERTIFICATES | Amount of Tax Anticipation Certificates complies with the authority in Minnesota Statutes, section 126C.52, Subdivision 1. | YES | NO |

MUNICIPAL ADVISOR INFORMATION

Municipal Advisor Corporation Name: _____ Address: _____

City: _____ State: _____ Zip Code: _____

Municipal Advisor Contact Person: _____ Telephone Number: _____ E-Mail Address: _____

