

**Independent School District No. 111  
Watertown-Mayer Schools  
Watertown, Minnesota**

**Basic Financial Statements**

**June 30, 2021**



**Independent School District No. 111  
Watertown-Mayer Schools  
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**Independent School District No. 111  
Watertown-Mayer Schools  
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**Independent School District No. 111  
Watertown-Mayer Schools  
Board of Education and Administration  
June 30, 2021**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Hunter Feldt	Chair	December 31, 2022
Tim Thompson	Vice Chair	December 31, 2022
Jim Burns	Clerk	December 31, 2024
Erika Schulz	Treasurer	December 31, 2022
Katy Danielson	Director	December 31, 2024
Josh Guetzkow	Director	December 31, 2024
Heidi Guetzkow	Director	December 31, 2024
<u>Administration</u>		
Darren Schuler	Superintendent	Appointed

## Independent Auditor's Report

To the School Board  
Independent School District No. 111  
Watertown-Mayer Schools  
Watertown, Minnesota

### Report on the Basic 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. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2021, and the related notes to financial statements, which collectively comprise the District's financial statements as listed in the Table of Contents.

### Management's Responsibility for the Basic Financial Statements

The management of Independent School District No. 111 is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 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 basic 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 basic 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 Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of June 30, 2021, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information 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 Government Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

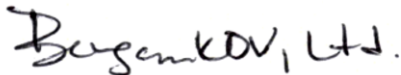
## **Other Matters (Continued)**

### *Other Information (Continued)*

The accompanying supplementary information identified in the Table of Contents 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 accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2021, on our consideration of the District's internal control over financial reporting and 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 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.



St. Cloud, Minnesota  
October 18, 2021

## **Independent School District No. 111 Management's Discussion and Analysis**

This section of Independent School District No. 0111 – Watertown-Mayer Public Schools' annual financial report presents the Management Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The MD&A is an element of required supplementary information specified by the GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June, 1999. GASB Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure and supplemental information, including the MD&A (this section).

### **FINANCIAL HIGHLIGHTS**

Key financial highlight for 2020 – 2021 is that the District's total general fund balance increased by \$1,292,685.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information, which includes the MD&A, the basic financial statements, and the supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

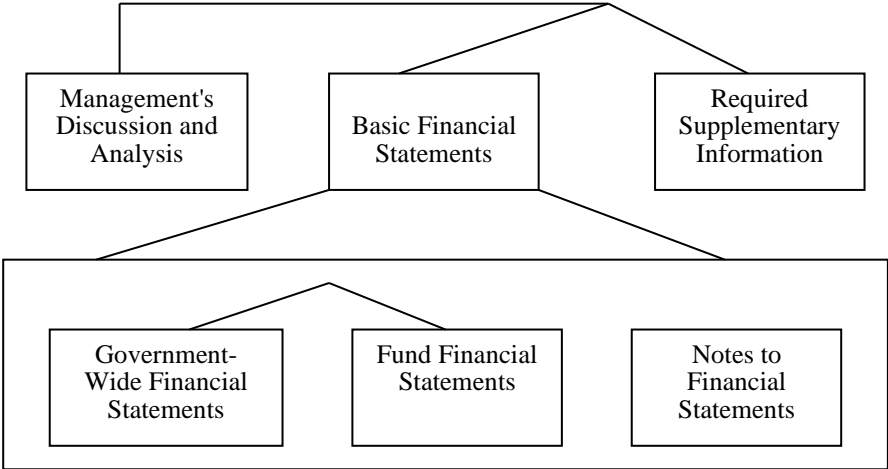
- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements. The diagram on the next page shows how the various parts of this annual report are arranged and related to one another.



**Independent School District No. 111  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**



Summary < -----> Detail

The major features of the District's financial statements, including the portion of the District's activities they cover, and the types of information they contain, are summarized on the following page. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

<b>Financial Statements</b>		
	<b>Government Wide</b>	<b>Fund - Governmental</b>
Scope	Entire District (except fiduciary funds).	The activities of the District that is not proprietary or fiduciary, such as special education and building maintenance.
Required Financial Statements	❖ Statement of Net Position ❖ Statement of Activities	❖ Balance Sheet ❖ Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.
Type of Assets/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.

# **Independent School District No. 111 Management's Discussion and Analysis**

## **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

### **Government-wide Statements**

The government-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 government-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, are 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 health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-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 and state 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).

The District has only one kind 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 government-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

**Independent School District No. 111  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

The District's combined net position on June 30, 2021, was \$12,695,416 (see details in Table A-1 below). This is an increase of \$3,246,129 from June 30, 2020. Of this increase, \$2,733,802 was due to an increase in the district assets due the construction project that the district is currently undergoing.

**Table A-1**

	<u>2021</u>	<u>2020</u>
Current and Other Assets	\$37,254,575	\$40,155,957
Capital Assets	56,432,614	50,793,440
Total Assets	<u>93,687,189</u>	<u>90,949,397</u>
Deferred Outflows of Resources	<u>4,925,652</u>	<u>8,320,155</u>
Total Assets and Deferred Outflows of Resources	<u>\$98,612,841</u>	<u>\$99,269,552</u>
Long-Term Liabilities	\$63,696,415	\$66,427,409
Current Liabilities	5,343,893	2,320,609
Total Liabilities	<u>69,040,308</u>	<u>68,748,018</u>
Deferred Inflow of Resources	<u>16,877,117</u>	<u>21,072,247</u>
Net Position		
Net Investment in Capital Assets	23,168,525	20,615,941
Restricted		
Debt Sservice	25,007	681,257
Capital projects	578,179	156,426
Other purposes	1,812,017	929,736
Unrestricted	<u>(12,888,312)</u>	<u>(12,934,073)</u>
Total Net Position	<u>12,695,416</u>	<u>9,449,287</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$98,612,841</u>	<u>\$99,269,552</u>

A summary of the District's revenues and expenses are presented in Table A-2 on the following page.

**Independent School District No. 111  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

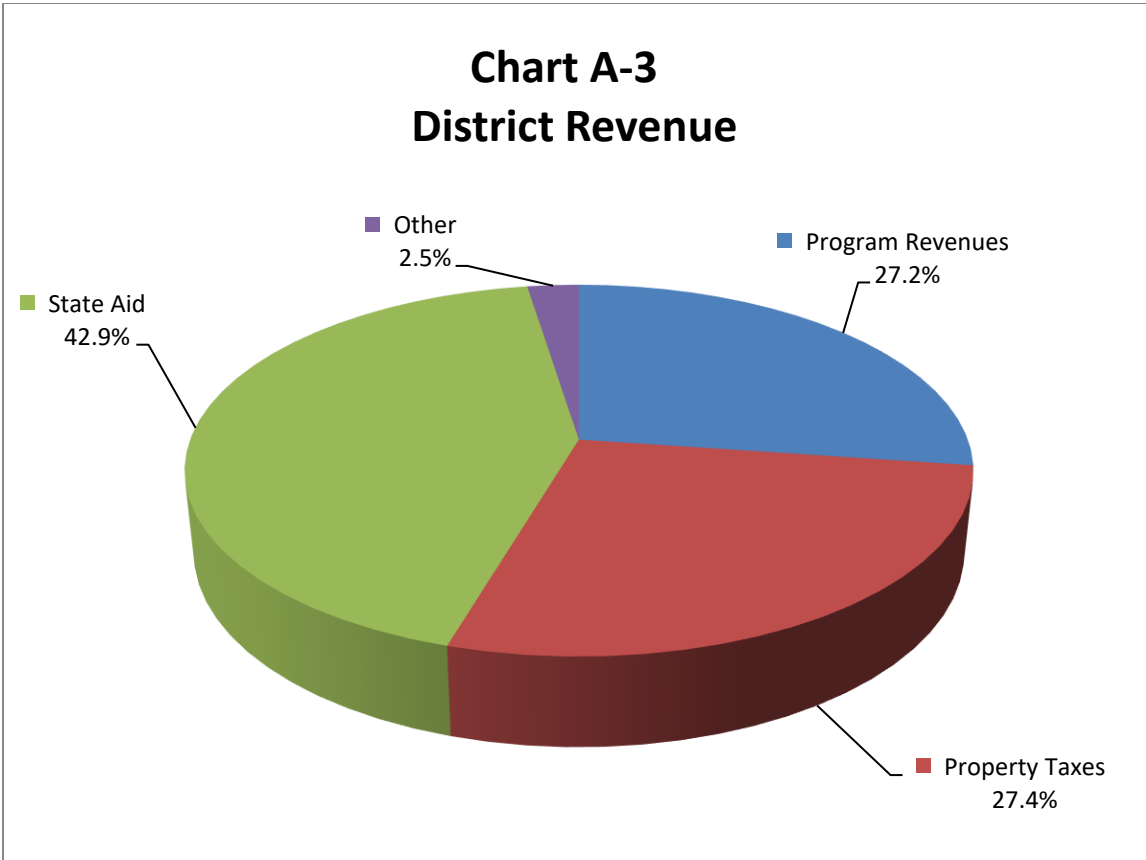
**Table A-2**

<b>Revenues</b>	2021	2020
Program revenues		
Charges for services	\$ 1,353,456	\$ 1,543,170
Operating grants and contributions	4,643,867	4,068,320
Capital grants and contributions	1,363,625	723,973
General revenues		
Property taxes	7,400,439	6,706,795
Aids and payments from state and other	11,607,095	11,787,463
Other sources	669,326	267,469
Total revenues	27,037,808	25,097,190
 <b>Expenses</b>		
Administration	925,792	932,052
District support services	1,223,056	765,466
Elementary and secondary regular instruction	7,876,402	7,733,553
Vocational instruction	339,401	323,686
Special education instruction	3,190,936	3,415,685
Instructional support services	764,670	769,142
Pupil support services	1,663,053	1,684,803
Site, buildings and equipment	4,503,500	3,549,332
Fiscal and other fixed cost programs	170,809	97,866
Food service	530,551	694,740
Community education and services	1,462,828	1,539,165
Interest and fiscal charges on long-term debt	1,140,631	886,530
Total expenses	23,791,629	22,392,020
 Change in net position	3,246,179	2,705,170
Net position – beginning	9,449,287	6,607,881
Change in account principle	-	214,134
Prior period adjustment	-	(77,898)
Net position – ending	\$ 12,695,466	\$ 9,449,287

**Independent School District No. 111  
Management's Discussion and Analysis**

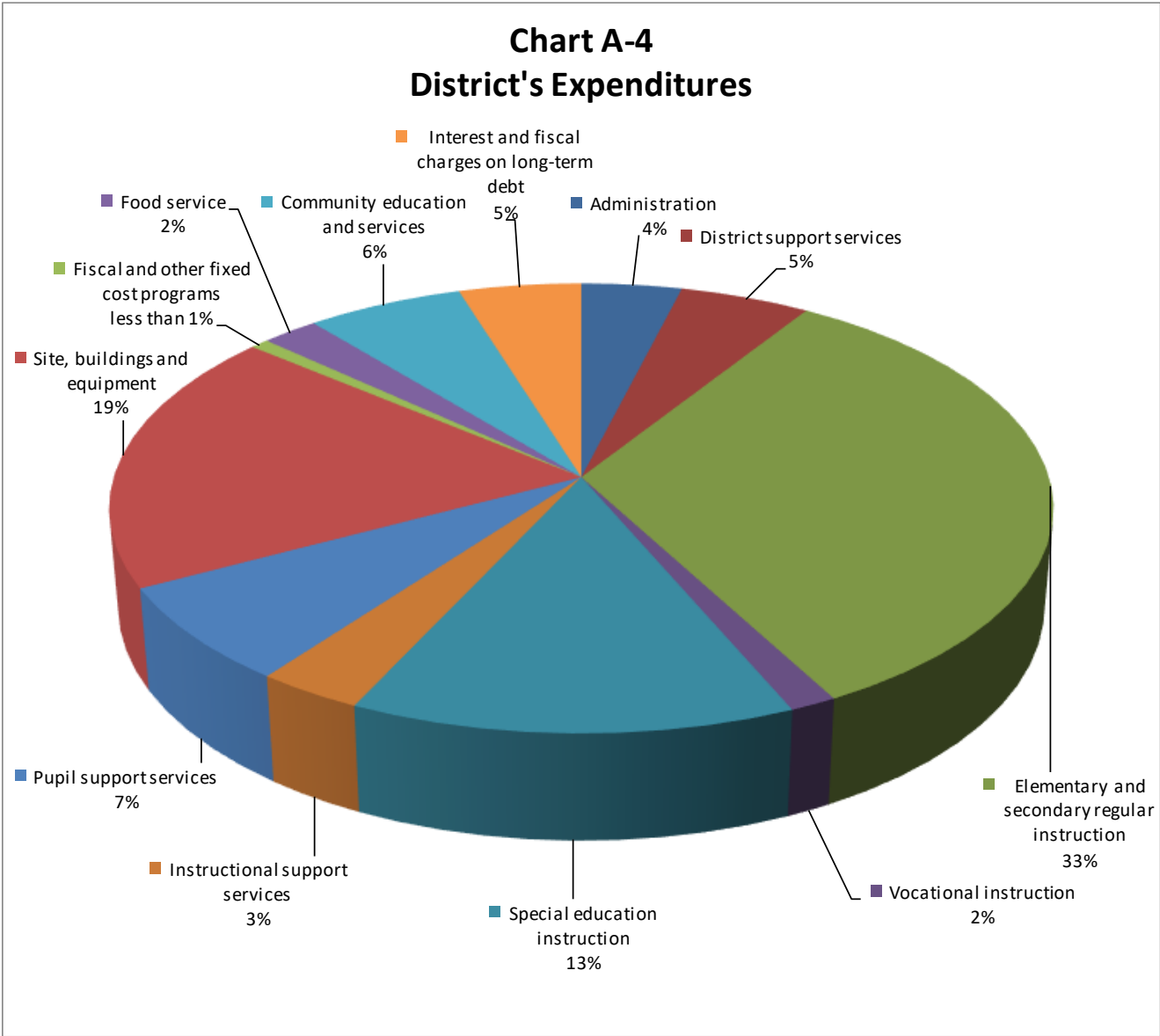
**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

The District's total revenue consisted of program revenues of \$7,360,948, property taxes of \$7,400,439, aid payments from the state and other of \$11,607,095 and \$669,326 from miscellaneous other sources. Expenses totaled \$23,791,629. Instruction expenses consisted of regular, vocational, special education instruction, instructional support and pupil support cost totaled \$13,834,462. Other areas of cost included: support services (district and administrative) totaling \$2,148,848, sites, building and equipment \$4,503,500, fiscal and other fixed cost of \$170,809, food services activities \$530,551, Community Education activities of \$1,462,828 and interest and other fiscal changes on long-term, debt of \$1,140,631.



**Independent School District No. 111  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**



**Independent School District No. 111  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**Revenue and Expenditures**

A comparison of General Fund Revenue and Expenditures are below in Table A-5. Total General Fund revenues increased by \$428,567 or about 2.35% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. The increase in revenue is primarily due an increase in state funding formula and increase in the district's ADM.

Total General Fund expenditures increased \$1,042,891 or about 5.89% from the prior year. Factors contributing to the increase were capital purchases.

**Table A-5**

	<b>General Fund Revenues</b>		<b>Change</b>	
	<u>Year Ended</u>		<u>Increase /</u>	<u>Percentage</u>
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>(Decrease)</u>	
Local sources	\$ 640,060	\$ 663,885	\$ (23,825)	-3.59%
Property taxes	2,950,337	2,291,889	658,448	28.73%
Other	782	15,236	(14,454)	-94.87%
State sources	14,153,684	14,709,751	(556,067)	-3.78%
Federal sources	885,276	520,811	364,465	69.98%
	<u>\$ 18,630,139</u>	<u>\$ 18,201,572</u>	<u>\$ 428,567</u>	<u>2.35%</u>
<b>General Fund Expenditures</b>				
	<u>Year Ended</u>		<u>Change</u>	<u>Percentage</u>
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Increase /</u>	
			<u>(Decrease)</u>	
Salaries	\$ 9,463,118	\$ 9,138,881	\$ 324,237	3.55%
Employee benefits	2,735,523	2,701,119	34,404	1.27%
Purchased services	3,388,398	4,184,757	(796,359)	-19.03%
Supplies and materials	1,219,595	912,863	306,732	33.60%
Capital expenditures	1,814,528	645,435	1,169,093	181.13%
Other expenditures	134,211	129,427	4,784	3.70%
	<u>\$ 18,755,373</u>	<u>\$ 17,712,482</u>	<u>\$ 1,042,891</u>	<u>5.89%</u>

**Independent School District No. 111  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**Fund Balance**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a decrease in combined fund balance of \$5,394,403 for an overall combined District fund balance of \$25,121,408.

**Table A-6  
District's Fund Balances**

Fund	June 30, 2020 Fund Balance	Revenues and other financing sources	Expenditures	June 30, 2021 Fund Balance	Change
General	\$ 4,209,301	\$ 20,048,058	\$ 18,755,373	\$ 5,501,986	\$ 1,292,685
Food Service	50,917	535,378	534,115	\$52,180	1,263
Community Ed	173,134	1,690,401	1,577,501	\$286,034	112,900
Construction	25,161,848	421,753	7,204,827	\$18,378,774	(6,783,074)
Debt Service	920,611	4,581,967	4,600,144	\$902,434	(18,177)
<b>Total</b>	<b>\$ 30,515,811</b>	<b>\$ 27,277,557</b>	<b>\$ 32,671,960</b>	<b>\$ 25,121,408</b>	<b>\$ (5,394,403)</b>

**General Fund Budgetary Highlights**

The District's final General Fund budget anticipated that revenues would exceed expenditures by \$104,573. The actual result was an increase in fund balance of \$1,292,685. Revenues were \$3,049 under budget (0.02% of the projected budget) and expenditures were \$773,242 under budget (3.96% of the projected budget). The final budget was modified from the original budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Asset**

By the end of 2021, the District had invested \$82,873,772 in a broad range of capital assets, including land, construction in progress, school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7). Total accumulated depreciation increased \$1,650,842 from 2020. See Note 3 in the financial statement for further detail.



**Independent School District No. 111  
Management's Discussion and Analysis**

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

**Capital Asset (Continued)**

**Table A-7  
District's Capital Assets**

	<u>2021</u>	<u>2020</u>
Land	\$26,700	\$26,700
Construction in Progress	7,983,125	780,050
Land improvements	772,351	772,351
Building and improvements	71,512,511	71,512,511
Equipment	2,579,085	2,492,144
Less: accumulated depreciation	<u>(26,441,158)</u>	<u>(24,790,316)</u>
 Total	 <u><u>\$56,432,614</u></u>	 <u><u>\$50,793,440</u></u>

**Long-Term Debt**

At June 30, 2021 the District had \$48,967,663 in general obligation bond payable. This is a decrease of \$3,775,000 from June 30, 2020. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt. See Note 4 in the financial statements for further detail.

**Table A- 8  
District's Long-Term Debt**

	<u>2021</u>	<u>2020</u>
General Obligation Bonds	\$48,967,663	\$52,742,663
Premiums on Bonds	1,443,475	1,798,840
Certificates of Participation	347,237	458,718
Capital Leases	306,309	182,700
Compensated Absences	<u>195,458</u>	<u>205,259</u>
 Total	 <u><u>\$51,260,142</u></u>	 <u><u>\$55,388,180</u></u>
 Long-Term Liabilities		
Due within one year	4,363,832	4,157,686
Due in more than one year	<u>46,896,310</u>	<u>51,230,494</u>
 Total	 <u><u>\$51,260,142</u></u>	 <u><u>\$55,388,180</u></u>

**Independent School District No. 111  
Management's Discussion and Analysis**

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

Enrollment is a critical factor in determining revenue, with approximately 75% of General Fund Revenue being determined by enrollment, therefore, understanding and making efforts to impact student enrollment choices is a key factor to the long-term fiscal health of the District. The district will need to remain diligent in watching the student count closely. The chart below displays the change in ADM for the past five years. 2021 shows a decrease from 2020. Future enrollment will be monitored closely to assure accurate budgeting.

**Table A-9  
District's Adjusted Daily Membership (ADM)**

<b>Grade</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
K	90.53	102.39	110.07	109.54	99.21
1-3	376.12	353.74	313.8	323.78	316.1
4-6	358.58	337.2	363.3	376.25	339.05
7-12	746.78	753.23	728.85	735.5	711.54
Total K - 12 ADM	1,572.01	1,546.56	1,516.02	1,545.07	1465.9
ADM change	30.92	-25.45	-30.54	29.05	-79.17

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

- This report is designed to provide the District's citizens, taxpayers, customers, 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 any questions about this report or would like additional information, contact the District Office, 1001 Highway 25, Watertown, Minnesota, 55735.

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## **BASIC FINANCIAL STATEMENTS**

**Independent School District No. 111  
Watertown-Mayer Schools  
Statement of Net Position  
June 30, 2021**

	Governmental Activities
<b>Assets</b>	
Cash and investments (including cash equivalents)	\$ 30,295,445
Current property taxes receivable	4,358,595
Delinquent property taxes receivable	201,835
Accounts receivable	1,006,133
Due from Department of Education	1,152,397
Due from Federal Government through Department of Education	79,063
Due from other Minnesota school districts	11,963
Due from other governmental units	26,606
Inventory	18,703
Prepaid items	103,835
Capital assets, not being depreciated	
Land	26,700
Construction in progress	7,983,125
Capital assets, net of accumulated depreciation	
Land improvements	336,443
Buildings	47,465,708
Equipment	620,638
Total assets	93,687,189
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to OPEB	67,834
Deferred outflows related to pensions	4,857,818
Total deferred outflows of resources	4,925,652
Total assets and deferred outflows of resources	\$ 98,612,841
<b>Liabilities</b>	
Accounts payable	\$ 2,761,313
Salaries and benefits payable	1,414,227
Interest payable	991,193
Due to other Minnesota school districts	68,584
Due to other governmental units	72,252
Unearned revenue	36,324
Bond principal payable	
Payable within one year	3,910,000
Payable after one year	46,501,138
Certificates of participation	
Payable within one year	121,933
Payable after one year	225,304
Capital lease payable	
Payable within one year	136,441
Payable after one year	169,868
Compensated absences payable	
Payable within one year	195,458
Total OPEB liability	641,658
Net pension liability	11,794,615
Total liabilities	69,040,308
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	7,615,192
Deferred inflows related to OPEB	113,777
Deferred inflows related to pensions	9,148,148
Total deferred inflows of resources	16,877,117
<b>Net Position</b>	
Net investment in capital assets	23,168,525
Restricted	
Debt service	25,007
Capital projects	578,179
Other purposes	1,812,017
Unrestricted	(12,888,312)
Total net position	12,695,416
Total liabilities, deferred inflows of resources, and net position	\$ 98,612,841

**Independent School District No. 111  
Watertown-Mayer Schools  
Statement of Net Position  
June 30, 2021**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions			
Governmental activities						
Administration	\$ 925,792	\$ -	\$ -	\$ -	\$ (925,792)	
District support services	1,223,056	-	318,887	-	(904,169)	
Elementary and secondary regular instruction	7,876,402	180,031	985,642	-	(6,710,729)	
Vocational education instruction	339,401	-	20,774	-	(318,627)	
Special education instruction	3,190,936	142,811	2,213,471	-	(834,654)	
Instructional support services	764,670	10,637	-	-	(754,033)	
Pupil support services	1,663,053	570	134,481	-	(1,528,002)	
Sites and buildings	4,503,500	-	54,588	1,363,625	(3,085,287)	
Fiscal and other fixed cost programs	170,809	-	-	-	(170,809)	
Food service	530,551	69,556	465,822	-	4,827	
Community education and services	1,462,828	949,851	450,202	-	(62,775)	
Interest and fiscal charges on long-term debt	1,140,631	-	-	-	(1,140,631)	
Total governmental activities	<u>\$ 23,791,629</u>	<u>\$ 1,353,456</u>	<u>\$ 4,643,867</u>	<u>\$ 1,363,625</u>	(16,430,681)	
General revenues						
Taxes						
						2,957,947
						291,565
						4,150,927
						11,607,095
						158,206
						502,442
						8,628
						<u>19,676,810</u>
						3,246,129
						<u>9,449,287</u>
						<u>\$ 12,695,416</u>

**Independent School District No. 111  
Watertown-Mayer Schools  
Balance Sheet – Governmental Funds  
June 30, 2021**

	General	Debt Service
<b>Assets</b>		
Cash and investments	\$ 6,506,259	\$ 2,787,814
Current property taxes receivable	1,581,243	2,617,732
Delinquent property taxes receivable	54,005	139,193
Accounts receivable	1,005,735	-
Due from Department of Education	1,090,579	36,026
Due from Federal Government through Department of Education	79,063	-
Due from other Minnesota school districts	2,506	-
Due from other governmental units	26,606	-
Inventory	3,789	-
Prepaid items	103,835	-
	<u>\$ 10,453,620</u>	<u>\$ 5,580,765</u>
<b>Liabilities</b>		
Accounts payable	\$ 684,910	\$ -
Salaries and benefits payable	1,332,250	-
Due to other Minnesota school districts	60,596	-
Due to other governmental units	72,252	-
Unearned revenue	2,923	-
Total liabilities	<u>2,152,931</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>		
Property taxes levied for subsequent year's expenditures	2,754,296	4,564,565
Unavailable revenue - delinquent property taxes	44,407	113,766
Total deferred inflows of resources	<u>2,798,703</u>	<u>4,678,331</u>
<b>Fund Balances</b>		
Nonspendable	107,624	-
Restricted	1,466,701	902,434
Assigned	300,000	-
Unassigned	3,627,661	-
Total fund balances	<u>5,501,986</u>	<u>902,434</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 10,453,620</u>	<u>\$ 5,580,765</u>

Capital Project	Nonmajor Funds	Total Governmental Funds
\$ 20,382,669	\$ 618,703	\$ 30,295,445
-	159,620	4,358,595
-	8,637	201,835
-	398	1,006,133
-	25,792	1,152,397
-	-	79,063
-	9,457	11,963
-	-	26,606
-	14,914	18,703
-	-	103,835
<u>\$ 20,382,669</u>	<u>\$ 837,521</u>	<u>\$ 37,254,575</u>
\$ 2,003,895	\$ 72,508	\$ 2,761,313
-	81,977	1,414,227
-	7,988	68,584
-	-	72,252
-	33,401	36,324
<u>2,003,895</u>	<u>195,874</u>	<u>4,352,700</u>
-	296,331	7,615,192
-	7,102	165,275
-	303,433	7,780,467
-	14,914	122,538
18,378,774	323,300	21,071,209
-	-	300,000
-	-	3,627,661
<u>18,378,774</u>	<u>338,214</u>	<u>25,121,408</u>
<u>\$ 20,382,669</u>	<u>\$ 837,521</u>	<u>\$ 37,254,575</u>



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**Independent School District No. 111  
Watertown-Mayer Schools  
Reconciliation of the Balance Sheet to  
the Statement of Net Position – Governmental Funds  
June 30, 2021**

Total fund balances - governmental funds \$ 25,121,408

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	82,873,772
Less accumulated depreciation	(26,441,158)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bond principal payable	(48,967,663)
Premium on bonds payable	(1,443,475)
Certificates of participation	(347,237)
Capital lease payable	(306,309)
Compensated absences	(195,458)
Total OPEB liability	(641,658)
Net pension liability	(11,794,615)

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds.

Deferred outflows of resources related to OPEB	67,834
Deferred outflows of resources related to pensions	4,857,818
Deferred inflows of resources related to OPEB	(113,777)
Deferred inflows of resources related to pensions	(9,148,148)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

165,275

Governmental funds do not report a liability for accrued interest on bonds and other long term debt until due and payable.

(991,193)

Total net position - governmental activities

\$ 12,695,416

**Independent School District No. 111  
Watertown-Mayer Schools  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2021**

	General	Debt Service
<b>Revenues</b>		
Local property taxes	\$ 2,950,337	\$ 4,134,655
Other local and county revenues	640,060	-
Revenue from state sources	14,153,684	447,312
Revenue from federal sources	885,276	-
Sales and other conversion of assets	782	-
Total revenues	18,630,139	4,581,967
<b>Expenditures</b>		
<b>Current</b>		
Administration	914,656	-
District support services	928,745	-
Elementary and secondary regular instruction	7,436,663	-
Vocational education instruction	318,327	-
Special education instruction	3,083,999	-
Instructional support services	735,494	-
Pupil support services	1,473,943	-
Sites and buildings	1,878,209	-
Fiscal and other fixed cost programs	170,809	-
Food service	-	-
Community education and services	-	-
<b>Capital outlay</b>		
District support services	353,563	-
Elementary and secondary regular instruction	15,432	-
Instructional support services	13,595	-
Pupil support services	69,177	-
Sites and buildings	1,124,579	-
<b>Debt service</b>		
Principal	221,675	3,775,000
Interest and fiscal charges	16,507	825,144
Total expenditures	18,755,373	4,600,144
Excess of revenues over (under) expenditures	(125,234)	(18,177)
<b>Other Financing Sources</b>		
Proceeds from sale of capital assets	8,628	-
Capital lease issuance	288,079	-
Insurance recovery	1,121,212	-
Total other financing sources	1,417,919	-
Net change in fund balances	1,292,685	(18,177)
<b>Fund Balances</b>		
Beginning of year	4,209,301	920,611
End of year	\$ 5,501,986	\$ 902,434

Capital Project	Nonmajor Funds	Total Governmental Funds
\$ -	\$ 290,348	\$ 7,375,340
421,753	979,820	2,041,633
-	329,369	14,930,365
-	556,686	1,441,962
-	69,556	70,338
421,753	2,225,779	25,859,638
-	-	914,656
-	-	928,745
-	-	7,436,663
-	-	318,327
-	-	3,083,999
-	-	735,494
-	96,214	1,570,157
2,245,696	-	4,123,905
-	-	170,809
-	534,115	534,115
-	1,481,287	1,481,287
-	-	353,563
-	-	15,432
-	-	13,595
-	-	69,177
4,959,131	-	6,083,710
-	-	3,996,675
-	-	841,651
7,204,827	2,111,616	32,671,960
(6,783,074)	114,163	(6,812,322)
-	-	8,628
-	-	288,079
-	-	1,121,212
-	-	1,417,919
(6,783,074)	114,163	(5,394,403)
25,161,848	224,051	30,515,811
\$ 18,378,774	\$ 338,214	\$ 25,121,408

See notes to basic financial statements

**Independent School District No. 111  
Watertown-Mayer Schools  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances to the  
Statement of Activities – Governmental Funds  
Year Ended June 30, 2021**

Net change in fund balances - total governmental funds \$ (5,394,403)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities cost of those assets is allocated over the Estimated useful lives as depreciation expense.

Capital outlays	7,307,060
Depreciation expense	(1,667,886)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	9,801
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Total OPEB are recognized as paid in the governmental funds, but recognized as the expense is incurred in the Statement of Activities.	26,058
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Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	4,050,951
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Proceeds from the issuance of long-term debt are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	
Capital lease issuance	(288,079)

Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	355,365
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Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(523,492)
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Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	25,099
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>(654,345)</u>
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Change in net position - governmental activities	<u><u>\$ 3,246,129</u></u>
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**Independent School District No. 111  
Watertown-Mayer Schools  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance –  
Budget and Actual – General Fund  
Year Ended June 30, 2021**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 2,993,891	\$ 2,957,610	\$ 2,950,337	\$ (7,273)
Other local and county revenues	639,577	481,603	640,060	158,457
Revenue from state sources	13,951,668	14,148,675	14,153,684	5,009
Revenue from federal sources	622,112	1,045,300	885,276	(160,024)
Sales and other conversion of assets	-	-	782	782
Total revenues	<u>18,207,248</u>	<u>18,633,188</u>	<u>18,630,139</u>	<u>(3,049)</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	933,959	933,990	914,656	(19,334)
District support services	654,600	1,005,996	928,745	(77,251)
Elementary and secondary regular instruction	7,359,368	7,777,220	7,436,663	(340,557)
Vocational education instruction	313,182	315,430	318,327	2,897
Special education instruction	3,513,481	3,298,674	3,083,999	(214,675)
Instructional support services	838,215	859,612	735,494	(124,118)
Pupil support services	1,663,343	1,665,724	1,473,943	(191,781)
Sites and buildings	2,169,969	2,054,910	1,878,209	(176,701)
Fiscal and other fixed cost programs	181,131	170,810	170,809	(1)
<b>Capital outlay</b>				
District support services	90,000	60,500	353,563	293,063
Elementary and secondary regular instruction	57,304	27,134	15,432	(11,702)
Special education instruction	909	-	-	-
Instructional support services	-	5,715	13,595	7,880
Pupil support services	-	32,766	69,177	36,411
Sites and buildings	26,175	1,079,847	1,124,579	44,732
<b>Debt service</b>				
Principal	186,079	223,779	221,675	(2,104)
Interest and fiscal charges	16,508	16,508	16,507	(1)
Total expenditures	<u>18,004,223</u>	<u>19,528,615</u>	<u>18,755,373</u>	<u>(773,242)</u>
Excess of revenues over (under) expenditures	203,025	(895,427)	(125,234)	770,193
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	-	-	8,628	8,628
Capital lease issuance	-	-	288,079	288,079
Insurance proceeds	-	1,000,000	1,121,212	121,212
Total other financing sources	<u>-</u>	<u>1,000,000</u>	<u>1,417,919</u>	<u>417,919</u>
Net change in fund balance	<u>\$ 203,025</u>	<u>\$ 104,573</u>	1,292,685	<u>\$ 1,188,112</u>
<b>Fund Balance</b>				
Beginning of year			<u>4,209,301</u>	
End of year			<u>\$ 5,501,986</u>	

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**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve three-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**A. Reporting Entity**

The basic financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under board control and are not reported separately.

**B. Basic Financial Statement Information**

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.



**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statement Information (Continued)**

Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of restricted fund balances do not exist: committed, assigned, and unassigned.

**Description of Funds:**

Major Funds:

General Fund – This fund is the basic operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for: administration, kindergarten through 12<sup>th</sup> grade instruction, transporting students to and from school, maintenance of facilities, and equipment purchases.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**Description of Funds: (Continued)**

Major Funds: (Continued)

Debt Service Fund – This fund accounts for the accumulation of resources for, and the payment of, general long-term obligation principal and interest. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Building Construction Fund – Capital Projects – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures. Revenues consist of state and federal aids and grants and sales to pupils and adults.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids and grants and program participant fees.

**D. Deposits and Investments**

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

Cash and investments at June 30, 2021, were comprised of deposits and shares in the Minnesota Trust (MNTrust) Investment Shares Portfolio and Limited Term Duration Series.

*Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Deposits and Investments (Continued)**

*Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MNTrust Investment Shares Portfolio. Monthly withdrawals are available on the third Wednesday of each month upon at least two weeks advance notice for the Limited Term Duration Series.

**E. Property Tax Receivable**

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years, and is deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December **2020**, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2021. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventories**

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when purchased rather than when consumed.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

**I. Property Taxes**

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Wright, Hennepin, and Carver Counties are the collecting agency for the levy and remit(s) the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Property Taxes (Continued)**

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

**J. Capital Assets**

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment.

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

**K. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate basic financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category. Deferred outflows of resources related to pensions and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is also recorded for various estimate differences that will be amortized and recognized over future years.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item is related to pensions and is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to OPEB is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

**L. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing source. 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 withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**M. Compensated Absences**

Employees earn vacation pay at rates dependent upon each employee labor contract. Outstanding vacation liabilities are payable upon termination of employment. Vacation that is earned and unused as of June 30, 2021, is shown as a liability in the Statement of Net Position. Sick pay does not vest and is accounted for as an expenditure when paid.

**N. Other Postemployment Benefits (OPEB)**

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. 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.

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

**P. 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; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2021.

**Q. Fund Balance**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in these funds can be spent.

- Nonspendable Fund Balances – These amounts are comprised of funds that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact and include inventory and prepaid items.
- Restricted Fund Balances – These are amounts that are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- Committed Fund Balances – These are amounts comprised of unrestricted funds that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the School Board and that remain binding unless removed by the School Board by subsequent formal action.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Fund Balance (Continued)**

- Assigned Fund Balances – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The School Board, by a majority vote, may assign balances. The School Board also delegates authority to assign fund balances to the Superintendent and or the Budget and Finance Committee.
- Unassigned Fund Balances – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.
- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of not less than 7% and not more than 20% of the annual operating expenditures.

**R. Net Position**

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

**S. Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**T. Budgetary Information**

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. Prior to July 1, the Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**T. Budgetary Information (Continued)**

3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for the Debt Service and Capital Project Funds; however, during the year, the District approved Debt Service and Capital Project Fund budgets.
4. Budgets for the General, Special Revenue, Debt Service, and Capital Project Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2021, the District deposits were not exposed to custodial credit risk as they are insured and properly collateralized.

As of June 30, 2021, the District had the following deposits:

Pooled		
Checking	\$	(132,427)
Certificate of deposit		1,253,037
Nonpooled - Bond proceeds		
Savings		<u>20,828,544</u>
Total		<u><u>\$ 21,949,154</u></u>

**B. Investments**

As of June 30, 2021, the District had the following investments:

Investment Type	Investment Maturity (In Years)		
	Fair Value	Less Than 1 Year	Moody's Rating
Pooled			
MN Trust Investment Shares Portfolio	\$ 4,846,955	\$ 4,846,955	AAAm
MNTrust LTD	<u>\$ 3,498,336</u>	<u>\$ 3,498,336</u>	AAAm
Total	<u><u>\$ 8,345,291</u></u>	<u><u>\$ 8,345,291</u></u>	



**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

**Interest Rate Risk:** This is the risk that the market value of securities will be adversely affected due to the changes in market interest rates. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to those in the top two ratings issued by nationally recognized statistical rating organizations. It is the District's policy to invest in securities that meet the ratings requirements set by state statute. Investments are rated as indicated in the table above.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of a District's investment in a single issuer. The District has no policy in place that would limit its investment in a single issuer.

**Custodial Credit Risk – Investments:** For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no policy that addresses this risk.

The following is a summary of total deposits and investments.

Petty cash	\$ 1,000
Deposits	21,949,154
Investments	<u>8,345,291</u>
Total	<u><u>\$ 30,295,445</u></u>

Deposits and investments are presented in the June 30, 2021, basic financial statements as follows:

Statement of Net Position	
Cash and investments	<u><u>\$ 30,295,445</u></u>

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 26,700	\$ -	\$ -	\$ 26,700
Construction in Progress	780,050	7,203,075	-	7,983,125
Total capital assets not being depreciated	<u>806,750</u>	<u>7,203,075</u>	<u>-</u>	<u>8,009,825</u>
Capital assets being depreciated				
Land improvements	772,351	-	-	772,351
Buildings	71,512,511	-	-	71,512,511
Equipment	2,492,144	103,985	17,044	2,579,085
Total capital assets being depreciated	<u>74,777,006</u>	<u>103,985</u>	<u>17,044</u>	<u>74,863,947</u>
Less accumulated depreciation for				
Land improvements	417,575	18,333	-	435,908
Buildings	22,533,976	1,512,827	-	24,046,803
Equipment	1,838,765	136,726	17,044	1,958,447
Total accumulated depreciation	<u>24,790,316</u>	<u>1,667,886</u>	<u>17,044</u>	<u>26,441,158</u>
Total capital assets being depreciated, net	<u>49,986,690</u>	<u>(1,563,901)</u>	<u>-</u>	<u>48,422,789</u>
Governmental activities, capital assets, net	<u>\$ 50,793,440</u>	<u>\$ 5,639,174</u>	<u>\$ -</u>	<u>\$ 56,432,614</u>

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense for the year ended June 30, 2021, was charged to the following governmental functions:

Administration	\$ 612
District support services	61,389
Elementary and secondary regular instruction	12,300
Special education instruction	4,318
Instructional support services	3,353
Pupil support services	7,261
Sites and buildings	1,570,493
Food service	7,612
Community service	548
	548
Total depreciation expense	\$ 1,667,886

**NOTE 4 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities						
G.O. Bonds						
2012B G.O. School Building Bonds	09/15/12	3.0%-4.0%	\$ 25,930,000	02/01/26	\$ 13,245,000	\$ 2,545,000
2013A G.O. Alternative Facilities Bonds	04/30/13	.04%-3.0%	3,175,000	02/01/33	2,320,000	70,000
2015A G.O. School Building Refunding Bonds	11/24/15	3.0%	5,055,000	02/01/22	255,000	255,000
2015B G.O. School Building Refunding Bonds	11/24/15	2.0%-4.0%	8,115,000	02/01/26	7,045,000	1,040,000
2020A G.O. School Building Bonds	02/27/20	1.35%-2.59%	26,102,663	02/01/40	26,102,663	-
Unamortized premium on bonds					1,443,475	-
Total G.O. bonds, net of premium					50,411,138	3,910,000
Certificates of participation	07/09/10	4.04%	1,262,512	02/07/24	347,237	121,933
Capital lease payable					306,309	136,441
Compensated absences payable					195,458	195,458
Total all long-term liabilities					\$ 51,260,142	\$ 4,363,832

The long-term bond and compensated absences liabilities listed above were issued to finance acquisition and construction of capital facilities or were earned through employment with the District.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments for Bonds and Loans**

Minimum annual principal and interest payments required to retire bond and certificates of participation liabilities:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2022	\$ 3,910,000	\$ 679,300	\$ 4,589,300
2023	4,115,000	537,566	4,652,566
2024	4,240,000	415,870	4,655,870
2025	4,375,000	275,666	4,650,666
2026	4,490,000	161,226	4,651,226
2027-2031	11,915,413	1,826,217	13,741,630
2032-2036	9,699,430	3,204,630	12,904,060
2037-2040	6,222,819	3,657,181	9,880,000
Total	<u>\$ 48,967,662</u>	<u>\$ 10,757,656</u>	<u>\$ 59,725,318</u>

Year Ending June 30,	Certificates of Participation		
	Principal	Interest	Total
2022	\$ 121,933	\$ 11,811	\$ 133,744
2023	133,084	6,681	139,765
2024	92,220	1,297	93,517
Total	<u>\$ 347,237</u>	<u>\$ 19,789</u>	<u>\$ 367,026</u>

**C. Changes in Long-Term Liabilities**

	Beginning Balance Restated	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. school bonds	\$ 52,742,663	\$ -	\$ 3,775,000	\$ 48,967,663
Certificates of participation	458,718	-	111,481	347,237
Capital leases	182,700	288,079	164,470	306,309
Premium on bonds	1,798,840	-	355,365	1,443,475
Compensated absences payable	205,259	91,698	101,499	195,458
Total long-term liabilities	<u>\$ 55,388,180</u>	<u>\$ 379,777</u>	<u>\$ 4,507,815</u>	<u>\$ 51,260,142</u>

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**C. Changes in Long-Term Liabilities (Continued)**

The General Fund typically liquidates the liability related to compensated absences, certificates of participation and capital leases.

**D. Capital Lease Obligations**

The District entered into a lease purchase option agreement on July 2, 2018 with Vantage Financial, LLC for technology equipment. The capital lease obligation and corresponding improvements totaled \$86,423. The capital lease agreement includes annual principal payments of \$28,029 for the life of the agreement.

On July 2, 2018, the District entered into a lease purchase agreement with Vantage Financial, LLC for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$27,755. The capital lease agreement includes annual principal payments of \$5,460 for each of the five years of the agreement.

On July 2, 2019, the District entered into a lease purchase agreement with Vantage Financial, LLC for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$186,297. The capital lease agreement includes annual principal payments of \$52,370 for the first three years of the agreement and \$33,551 for the last year of the agreement.

On July 2, 2020, the District entered into a lease purchase agreement with Vantage Financial, LLC for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$217,096. The capital lease agreement includes annual principal payments of \$54,274 for each of the four years of the agreement.

On July 2, 2020, the District entered into a lease purchase agreement with Vantage Financial, LLC for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$70,983. The capital lease agreement includes annual principal payments of \$24,337 for each of the three years of the engagement.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**D. Capital Lease Obligations (Continued)**

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending <u>June 30,</u>	
2022	\$136,441
2023	115,594
2024	<u>52,246</u>
Total minimum lease payments	306,309
Less amount representing interest	<u>-</u>
Present value of minimum lease payments	<u><u>\$ 306,309</u></u>

The assets purchased with these leases were not capitalized as they were under the District's capitalization threshold.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION**

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

**A. Fund Balances**

Fund balances are classified below to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service Fund	Capital Project Fund	Other Nonmajor Funds	Total
Nonspendable					
Inventory	\$ 3,789	\$ -	\$ -	\$ 14,914	\$ 18,703
Prepaid items	103,835	-	-	-	103,835
Total nonspendable	<u>107,624</u>	<u>-</u>	<u>-</u>	<u>14,914</u>	<u>122,538</u>
Restricted/reserved for					
LTFM	623,951	30	-	-	623,981
Operating capital	359,946	-	-	-	359,946
Student Activities	149,752	-	-	-	149,752
Medical Assistance	333,052	-	-	-	333,052
Capital Projects	-	-	18,378,774	-	18,378,774
Debt Service	-	902,404	-	-	902,404
Food Service	-	-	-	37,266	37,266
Community Education	-	-	-	221,947	221,947
Early Childhood Family Education	-	-	-	21,210	21,210
School Readiness	-	-	-	16,041	16,041
Community Service	-	-	-	26,836	26,836
Total restricted/reserved	<u>1,466,701</u>	<u>902,434</u>	<u>18,378,774</u>	<u>323,300</u>	<u>21,071,209</u>
Assigned for					
Technology	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Unassigned	<u>3,627,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,627,661</u>
Total fund balance	<u>\$ 5,501,986</u>	<u>\$ 902,434</u>	<u>\$ 18,378,774</u>	<u>\$ 338,214</u>	<u>\$ 25,121,408</u>

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents the portion of fund balance that is not available as the amounts have already been spent by the District on items for the next year.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balances (Continued)**

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Student Activities – This balance represents available resources to be used for the extracurricular activity funds raised by the students.

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

Restricted/Reserved for Capital Projects – This balance represents resources available for the District's school building capital project.

Restricted/Reserved for Debt Service – This balance represents resources available for payment of G.O. bond principal, interest, and related costs.

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund not already spent on inventory.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Restricted/Reserved for Community Service – This balance represents the positive fund balance of the Community Service Fund not restricted for other programs.

Assigned for Technology – This balance represents the resources available for technology lease payments.



**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**B. Net Position**

Net position restricted for other purposes is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service and Community Service, adjusted to full accrual.

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans. Total pension expense for the year ended June 30, 2021, was \$1,444,284. The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidates the Liability related to the pensions.

**Teachers' Retirement Association**

**A. Plan Description**

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

Educators employed in Minnesota's public elementary and secondary schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the Minnesota State.

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided**

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

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

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

*Tier I 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 if service years 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 service years are July 1, 2006, or after	1.9% per year

With these provisions:

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

*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 is applied. 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.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

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

**C. Contribution Rate**

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2019, June 30, 2020, and June 30, 2021, were:

	<u>June 30, 2019</u>		<u>June 30, 2020</u>		<u>June 30, 2021</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.71%	11.0%	11.92%	11.0%	12.13%
Coordinated	7.5%	7.71%	7.5%	7.92%	7.5%	8.13%

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 425,223
Deduct Employer contributions not related to future contribution efforts	(56)
Deduct TRA's contributions not included in allocation	<u>(508)</u>
Total employer contributions	424,659
Total non-employer contributions	<u>35,587</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 460,246</u></u>

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**C. Contribution Rate (Continued)**

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

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

**Actuarial Information**

Valuation date	July 1, 2020
Experience study	June 5, 2015
	November 6, 2017, (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% thereafter
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2020 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

**Mortality Assumptions**

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

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.5 %	5.10 %
International equity	17.5	5.30
Private markets	25.0	5.90
Fixed income	20.0	0.75
Unallocated cash	2.0	0.00
Total	<u>100 %</u>	

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

Changes in actuarial assumptions and methods for the July 1, 2020, valuation:

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years, and female rates set back seven years. Generational projection uses the MP 2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2020 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**F. Net Pension Liability**

On June 30, 2021, the District reported a liability of \$9,486,364 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1284% at the end of the measurement period and 0.1291% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 9,486,364
State's proportionate share of the net pension liability associated with the District	795,212

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

For the year ended June 30, 2021, the District recognized pension expense of \$1,418,897. Included in this amount, the District recognized \$72,847 as pension expense for the support provided by direct aid.

On June 30, 2021, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 190,240	\$ 146,544
Net difference between projected and actual earnings on plan investments	131,444	-
Changes in assumptions	3,641,790	8,112,575
Changes in proportion	10,310	680,927
District's contributions to TRA subsequent to the measurement date	638,849	-
Total	\$ 4,612,633	\$ 8,940,046

The \$638,849 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, 2022.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2022	\$ 85,040
2023	(3,204,549)
2024	(2,070,576)
2025	191,784
2026	32,039
Total	\$ (4,966,262)

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%) than the current rate.

1% decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% increase in Discount Rate (8.5%)
\$ 14,523,523	\$ 9,486,364	\$ 5,336,000

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

**H. Pension Plan Fiduciary Net Position**

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

**Public Employees' Retirement Association**

**A. Plan Description**

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356. PERA's defined benefit pension plan is tax qualified plan under Section 401(a) of the Internal Revenue Code.

**General Employees Retirement Plan**

The General Employees Retirement Plan covers certain full time and part time employees of the District. General Employees plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**B. Benefits Provided**

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



**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**B. Benefits Provided (Continued)**

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1 the annuity accrual rate for a Coordinated Plan member is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**C. Contributions**

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2021, were \$202,899. The District's contributions were equal to the required contributions as set by state statute.

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2021, the District reported a liability of \$2,308,251 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$71,201. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0385%, at the end of the measurement period and 0.0389% for the beginning of the period.

District's proportionate share of net pension liability	\$ 2,308,251
State's proportionate share of the net pension liability associated with the District	<u>71,201</u>
Total	<u><u>\$ 2,379,452</u></u>

For the year ended June 30, 2021, the District recognized pension expense of \$25,387 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$6,197 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

At June 30, 2021, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 21,328	\$ 8,733
Changes in actuarial assumptions	-	87,978
Difference between projected and actual investment earnings	20,958	-
Change in proportion	-	111,391
District's contributions to PERA subsequent to the measurement date	202,899	-
Total	\$ 245,185	\$ 208,102

The \$202,899 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year End June 30,	Pension Expense
2022	\$ (208,269)
2023	(51,707)
2024	38,392
2025	55,768
Total	\$ (165,816)

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.25 % Per year
Active member payroll growth	3.00 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality Table. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2020, 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 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

**Changes in Actuarial Assumptions**

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

Changes in Actuarial Assumptions (Continued)

- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation or current privatized members was reduced to 2.0% for the period July 1, 2020, through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	35.5%	5.10 %
International stocks	17.5%	5.30
Bonds (fixed income)	20.0%	0.75
Alternative assets (private markets)	25.0%	5.90
Cash	2.0%	0.00
Total	<u>100%</u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2020 was 7.5%. 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 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.

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

The following table 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 3,699,326	\$ 2,308,251	\$ 1,160,726

**H. Pension Plan Fiduciary Net Position**

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the basic financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District provides a single-employer defined benefit OPEB plan which provides medical and dental benefits to eligible retired employees and their dependents in accordance with the terms of the plan. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees. No assets are acclimated in a trust.

**B. Benefits Paid**

Teachers hired before January 15, 2010, are eligible for the District to contribute \$200 per month toward medical insurance coverage until they are Medicare eligible. Various other employee groups also receive health insurance contributions at varying rates until they are Medicare eligible. The General Fund, Food Service Funds, and Community Service Fund typically liquidate the liability related to OPEB.

**C. Members**

As of July 1, 2020, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Active employees	216
Total	226

**Independent School District No. 111  
Notes to Basic Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**D. Contributions**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2021, the District contributed \$59,560 to the plan.

**E. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

---

Discount Rate	2.40%
Salary Increases	Service graded table
Inflation	2.50%
Healthcare cost trend increases	6.50% in 2021, decreasing to 5.0% over 6 years and then to 4.0% over the next 48 years
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale

The actuarial assumptions used in the July 1, 2020, valuation was based on the results of an actuarial experience study for the period July 1, 2019 – June 30, 2020.

The Discount rate was based on the 20-year Municipal Bond yield.

The following changes in actuarial assumptions in 2021:

Assumption changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group
- The discount rate was changed from 3.10% to 2.40%

**F. Total OPEB Liability**

The District's total OPEB liability of \$641,658 was measured as of July 1, 2020, and was determined by an actuarial valuation as of July 1, 2020.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**F. Total OPEB Liability (Continued)**

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2019	<u>\$ 659,674</u>
Changes for the year	
Service cost	44,381
Interest	20,974
Differences between expected and actual economic experience	(22,948)
Changes in assumptions	(5,049)
Benefit payments	<u>(55,374)</u>
Net changes	<u>(18,016)</u>
Balances at July 1, 2020	<u><u>\$ 641,658</u></u>

**OPEB Liability Sensitivity**

The following presents the District's total OPEB liability calculated using the discount rate of 2.40% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease in Discount Rate (1.40%)	Current Discount Rate (2.40%)	1% increase in Discount Rate (3.40%)
Total OPEB liability (asset)	\$ 674,032	\$ 641,658	\$ 609,570

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates.

	1% decrease (5.5% decreasing to 3.0%)	Current (6.5% decreasing to 4.0%)	1% increase (7.5% decreasing to 5.0%)
Total OPEB liability (asset)	\$ 596,656	\$ 641,658	\$ 694,301



**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**G. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2021, the District recognized OPEB expense of \$33,502. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gains	\$ -	\$ 109,450
Changes of assumptions	8,274	4,327
Subsequent contributions	59,560	-
Total	\$ 67,834	\$ 113,777

\$59,560 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ending June 30,	Total
2022	\$ (31,853)
2023	(31,853)
2024	(31,854)
2025	(1,951)
2026	(4,001)
Thereafter	(3,991)
Total	\$ (105,503)

**NOTE 9 – COMMITMENT**

As of June 30, 2021, the District had outstanding construction commitments that totaled \$9,756,690.

**Independent School District No. 111**  
**Notes to Basic Financial Statements**

**NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2022.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 111  
Watertown-Mayer Schools  
Schedule of Changes in Total OPEB Liability  
and Related Ratios**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability				
Service cost	\$ 44,381	\$ 44,758	\$ 40,932	\$ 50,247
Interest	20,974	22,799	27,921	27,764
Differenced between expected and actual experience	(22,948)	-	(179,562)	-
Changes of assumptions	(5,049)	12,315	131	-
Benefit payments	<u>(55,374)</u>	<u>(53,198)</u>	<u>(72,800)</u>	<u>(55,459)</u>
Net change in total OPEB liability	<u>(18,016)</u>	<u>26,674</u>	<u>(183,378)</u>	<u>22,552</u>
Beginning of year	<u>659,674</u>	<u>633,000</u>	<u>816,378</u>	<u>793,826</u>
End of year	<u>\$ 641,658</u>	<u>\$ 659,674</u>	<u>\$ 633,000</u>	<u>\$ 816,378</u>
Covered payroll	\$ 9,927,513	\$ 9,840,619	\$ 9,553,999	\$ 9,535,899
Total OPEB liability as a percentage of covered- employee payroll	6.46%	6.70%	6.63%	8.56%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 111  
Watertown-Mayer Schools  
Schedule of District's and Non-Employer Proportionate Share  
of Net Pension Liability – General Employees Retirement Fund  
Last Ten Years\***

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0498%	\$ 2,339,355	\$ -	\$ 2,339,355	\$ 2,615,489	89.44%	78.75%
2015	0.0461%	2,389,141	-	2,389,141	2,662,267	89.74%	78.19%
2016	0.0430%	3,491,387	45,639	3,537,026	2,667,667	130.88%	68.91%
2017	0.0427%	2,725,940	34,243	2,760,183	2,748,173	99.19%	75.90%
2018	0.0418%	2,318,893	76,115	2,395,008	2,811,973	82.46%	79.53%
2019	0.0389%	2,150,694	66,830	2,217,524	2,754,493	78.08%	80.23%
2020	0.0385%	2,308,251	71,201	2,379,452	2,747,307	84.02%	79.06%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District's and Non-Employer Proportionate Share  
of Net Pension Liability – TRA Retirement Fund  
Last Ten Years\***

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1450%	\$ 6,681,496	\$ 470,033	\$ 7,151,529	\$ 6,617,287	101.0%	81.50%
2015	0.1364%	8,437,689	1,034,755	9,472,444	6,922,747	121.9%	76.77%
2016	0.1374%	32,773,178	3,289,760	36,062,938	7,144,720	458.7%	44.88%
2017	0.1324%	26,429,442	2,554,872	28,984,314	7,125,240	370.9%	51.57%
2018	0.1305%	8,193,541	770,309	8,963,850	7,207,280	113.7%	78.07%
2019	0.1291%	8,228,861	728,100	8,956,961	7,330,986	112.2%	78.21%
2020	0.1284%	9,486,364	795,212	10,281,576	7,459,684	127.2%	75.48%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 111  
Watertown-Mayer Schools  
Schedule of District Contributions –  
General Employees Retirement Fund  
Last Ten Years\***

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 189,624	\$ 189,624	\$ -	\$ 2,615,489	7.25%
2015	199,670	199,670	-	2,662,267	7.50%
2016	200,075	200,075	-	2,667,667	7.50%
2017	206,113	206,113	-	2,748,173	7.50%
2018	210,898	210,898	-	2,811,973	7.50%
2019	206,587	206,587	-	2,754,493	7.50%
2020	206,048	206,048	-	2,747,307	7.50%
2021	202,899	202,899	-	2,705,320	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District Contributions –  
TRA Retirement Fund  
Last Ten Years\***

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 463,210	\$ 463,210	\$ -	\$ 6,617,287	7.00%
2015	519,206	519,206	-	6,922,747	7.50%
2016	535,854	535,854	-	7,144,720	7.50%
2017	534,393	534,393	-	7,125,240	7.50%
2018	540,546	540,546	-	7,207,280	7.50%
2019	565,219	565,219	-	7,330,986	7.71%
2020	590,807	590,807	-	7,459,684	7.92%
2021	638,849	638,849	-	7,857,921	8.13%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 111**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund**

**2020 Changes**

Changes in Actuarial Assumptions

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

**2019 Changes**

Changes in Actuarial Assumptions

- None

**2018 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

**2017 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.



**Independent School District No. 111**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2017 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

**2016 Changes**

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

**2015 Changes**

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

**Independent School District No. 111**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2015 Changes (Continued)**

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

**Independent School District No. 111**  
**Notes to the Required Supplementary Information**

**General Employees Fund**

**2020 Changes**

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**2019 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

**2018 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

**Independent School District No. 111**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2018 Changes (Continued)**

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**2017 Changes**

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

**2016 Changes**

Changes in Actuarial Assumptions

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

**Independent School District No. 111**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2015 Changes**

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

Changes in Actuarial Assumptions

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

**Post Employment Healthcare Plan**

**2020 Changes**

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group
- The discount rate was changed from 3.10% to 2.40%

**2019 Changes**

- The discount rate was changed from 3.50% to 3.10%

**2018 Changes**

Changes in Actuarial Assumptions

- The healthcare trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 white collar mortality tables with MP-2016 Generational Improvement scale to the RP-2014 white collar mortality tables with MP-2017 Generational Improvement Scale.
- The discount rate was changed from 3.40% to 3.50%.

**SUPPLEMENTARY INFORMATION**

**Independent School District No. 111  
Watertown-Mayer Schools  
Combining Balance Sheet –  
Nonmajor Governmental Funds  
June 30, 2021**

	Special Revenue Funds		
	Food Service	Community Service	Total
<b>Assets</b>			
Cash and investments	\$ 125,558	\$ 493,145	\$ 618,703
Current property taxes receivable	-	159,620	159,620
Delinquent property taxes receivable	-	8,637	8,637
Accounts receivable	-	398	398
Due from Department of Education	-	25,792	25,792
Due from other Minnesota school districts	-	9,457	9,457
Inventory	14,914	-	14,914
	<u>14,914</u>	<u>-</u>	<u>14,914</u>
Total assets	<u>\$ 140,472</u>	<u>\$ 697,049</u>	<u>\$ 837,521</u>
<b>Liabilities</b>			
Accounts payable	\$ 54,891	\$ 17,617	\$ 72,508
Salaries and benefits payable	-	81,977	81,977
Due to other minnesota districts	-	7,988	7,988
Unearned revenue	33,401	-	33,401
Total liabilities	<u>88,292</u>	<u>107,582</u>	<u>195,874</u>
<b>Deferred Inflows of Resources</b>			
Property taxes levied for subsequent year's expenditures	-	296,331	296,331
Unavailable revenue - delinquent property taxes	-	7,102	7,102
Total deferred inflows of resources	<u>-</u>	<u>303,433</u>	<u>303,433</u>
<b>Fund Balances</b>			
Nonspendable	14,914	-	14,914
Restricted	37,266	286,034	323,300
Total fund balances	<u>52,180</u>	<u>286,034</u>	<u>338,214</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 140,472</u>	<u>\$ 697,049</u>	<u>\$ 837,521</u>

**Independent School District No. 111  
Watertown-Mayer Schools  
Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances -  
Nonmajor Governmental Funds  
Year Ended June 30, 2021**

	Special Revenue Funds		
	Food Service	Community Service	Total
<b>Revenues</b>			
Local property taxes	\$ -	\$ 290,348	\$ 290,348
Other local and county revenues	-	979,820	979,820
Revenue from state sources	9,074	320,295	329,369
Revenue from federal sources	456,748	99,938	556,686
Sales and other conversion of assets	69,556	-	69,556
Total revenues	<u>535,378</u>	<u>1,690,401</u>	<u>2,225,779</u>
<b>Expenditures</b>			
Current			
Pupil support services	-	96,214	96,214
Food service	534,115	-	534,115
Community education and services	-	1,481,287	1,481,287
Total expenditures	<u>534,115</u>	<u>1,577,501</u>	<u>2,111,616</u>
Net change in fund balances	1,263	112,900	114,163
<b>Fund Balances</b>			
Beginning of year	<u>50,917</u>	<u>173,134</u>	<u>224,051</u>
End of year	<u>\$ 52,180</u>	<u>\$ 286,034</u>	<u>\$ 338,214</u>



**Independent School District No. 111**  
**Watertown-Mayer Schools**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2021**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total revenue	\$ 19,751,351	\$ 19,751,350	\$ 1	Total revenue	\$ 421,753	\$ 421,753	\$ -
Total expenditures	18,755,373	18,755,371	2	Total expenditures	7,204,827	7,204,827	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	107,624	107,624	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	149,752	149,752	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.09 Alternative Facility Program	-	-	-
4.03 Staff Development	-	-	-	4.13 Building Projects Funded by COP/LP	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Programs	-	-	-	4.64 Restricted fund balance	18,378,774	18,378,775	(1)
4.13 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
4.14 Operating Debt	-	-	-	4.63 Unassigned fund balance	-	-	-
4.16 Levy Reduction	-	-	-				
4.17 Taconite Building Maintenance	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.24 Operating Capital	359,946	359,946	-	Total revenue	\$ 4,581,967	\$ 4,581,967	\$ -
4.26 \$25 Taconite	-	-	-	Total expenditures	4,600,144	4,600,145	(1)
4.27 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.34 Area Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
4.35 Contracted Alternative Programs	-	-	-	4.25 Bond refundings	-	-	-
4.36 State Approved Alternative Program	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.38 Gifted and Talented	-	-	-	4.51 QZAB payments	-	-	-
4.40 Teacher Development and Evaluation	-	-	-	4.67 Long-term Facilities Maintenance	30	30	-
4.41 Basic Skills Programs	-	-	-	<i>Restricted:</i>			
4.45 Career Technical Programs	-	-	-	4.64 Restricted fund balance	902,404	902,403	1
4.48 Achievement and Integration	-	-	-	<i>Unassigned:</i>			
4.49 Safe School Crime	-	-	-	4.63 Unassigned fund balance	-	-	-
4.51 QZAB Payments	-	-	-				
4.52 OPEB Liabilities not Held in Trust	-	-	-	<b>08 TRUST FUND</b>			
4.53 Unfunded Severance and Retirement Levy	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.59 Basic Skills Extended Time	-	-	-	Total expenditures	-	-	-
4.67 Long-term Facilities Maintenance	623,951	623,950	1	<i>Unassigned:</i>			
4.72 Medical Assistance	333,052	333,052	-	4.01 Student Activities	-	-	-
4.75 Title VII - Impact Aid	-	-	-	4.02 Scholarships	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-	4.22 Net position	-	-	-
<i>Restricted:</i>							
4.72 Medical Assistance	-	-	-	<b>18 CUSTODIAL</b>			
4.64 Restricted fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.75 Title VII - Impact Aid	-	-	-	Total expenditures	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-	<i>Restricted/Reserved:</i>			
<i>Committed:</i>				4.01 Student Activities	-	-	-
4.18 Committed for separation	-	-	-	4.02 Scholarships	-	-	-
4.61 Committed	-	-	-	4.48 Achievement and Integration	-	-	-
<i>Assigned:</i>				4.64 Restricted	-	-	-
4.62 Assigned fund balance	300,000	300,000	-				
<i>Unassigned:</i>				<b>20 INTERNAL SERVICE FUND</b>			
4.22 Unassigned fund balance	3,627,661	3,627,662	(1)	Total revenue	\$ -	\$ -	\$ -
				Total expenditures	-	-	-
<b>02 FOOD SERVICE FUND</b>				<i>Unassigned:</i>			
Total revenue	\$ 535,378	\$ 535,380	(2)	4.22 Net position	-	-	-
Total expenditures	534,115	534,116	(1)				
<i>Nonspendable:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
4.60 Nonspendable fund balance	14,914	14,914	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted/reserved:</i>				Total expenditures	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				4.22 Net position	-	-	-
4.64 Restricted fund balance	37,266	37,266	-				
<i>Unassigned:</i>				<b>45 OPEB IRREVOCABLE TRUST</b>			
4.63 Unassigned fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
				Total expenditures	-	-	-
<b>04 COMMUNITY SERVICE FUND</b>				<i>Unassigned:</i>			
Total revenue	\$ 1,690,401	\$ 1,690,403	(2)	4.22 Net position	-	-	-
Total expenditures	1,577,501	1,577,503	(2)				
<i>Nonspendable:</i>				<b>47 OPEB DEBT SERVICE</b>			
4.60 Nonspendable fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted/reserved:</i>				Total expenditures	-	-	-
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.31 Community Education	221,947	221,947	-	4.60 Nonspendable fund balance	-	-	-
4.32 ECFE	21,210	21,210	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.25 Bond refundings	-	-	-
4.44 School Readiness	16,041	16,041	-	4.64 Restricted fund balance	-	-	-
4.47 Adult Basic Education	-	-	-	<i>Unassigned:</i>			
4.52 OPEB Liabilities not Held in Trust	-	-	-	4.63 Unassigned fund balance	-	-	-
<i>Restricted:</i>							
4.64 Restricted fund balance	26,836	26,835	1				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				

**Independent School District No. 111  
Watertown-Mayer Schools  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
<b>U.S. Department of Agriculture</b>		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Type A Lunch	10.555	\$ 11,236
Commodities (Noncash)	10.555	51,067
School Breakfast	10.553	1,129
COVID-19 Summer Food Service	10.559	<u>397,129</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>460,561</u>
<b>U.S. Department of Education</b>		
Through Minnesota Department of Education		
Title I, Part A	84.010	73,538
Title IV, Part A - Student Support and Academic Achievement	84.424	14,073
Title II, Part A - Teacher and Principal Training and Recruiting	84.367	11,731
COVID-19 Coronavirus Relief Fund	21.019C	370,399
COVID-19 Governor's Emergency Education Relief	84.425C	3,220
COVID-19 Elementary and Secondary Education Relief Fund	84.425D	101,575
COVID-19 Expanded Summer Learning	84.425D	<u>15,677</u>
Education Stabilization Fund Cluster		120,472
Preschool Grant for Children with Disabilities	84.173	4,005
IDEA, Part B	84.027	<u>186,171</u>
Special Education Cluster		190,176
IDEA, Part C - Infants and Toddlers	84.181	12,980
Through Carver-Scott Special Education Cooperative		
Carl Perkins	84.048A	20,774
Through Wright County		
COVID-19 Coronavirus Aid, Relief, and Economic Security Act	21.019	45,712
Through Watertown Township		
COVID-19 Coronavirus Aid, Relief, and Economic Security Act	21.019	<u>25,000</u>
Total U.S. Department of Education		<u>884,855</u>
Total Federal Expenditures		<u>\$ 1,345,416</u>

**Independent School District No. 111**  
**Notes to the Schedule of Expenditures of Federal Awards**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**NOTE 2 – PASS-THROUGH GRANT NUMBERS**

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

**NOTE 3 – INVENTORY**

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

**NOTE 4 – INDIRECT COST RATE**

The District did not elect to use the 10 percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Basic Financial Statements Performed in Accordance  
With *Government Auditing Standards***

**Independent Auditor's Report**

To the School Board  
Independent School District No. 111  
Watertown-Mayer Schools  
Watertown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ending June 30, 2021, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 18, 2021.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings Questioned Costs in Accordance with the Uniform Guidance that we consider to be a material weakness as audit finding 2021-001.

### **Compliance and Other Matters**

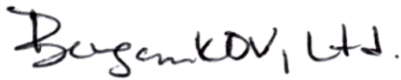
As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the basic financial statements. 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*.

### **District's Response to the Findings**

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

### **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 results 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.



St. Cloud, Minnesota  
October 18, 2021

**Report on Compliance for Each Major Federal Program  
and Report on Internal Control over Compliance in Accordance  
with the Uniform Guidance**

**Independent Auditor's Report**

To the School Board  
Independent School District No. 111  
Watertown, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Independent School District No. 111's, Watertown, Minnesota compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (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, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of 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, Independent School District No. 111 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, 2021.

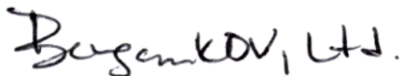
## Report on Internal Control over Compliance

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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



St. Cloud, Minnesota  
October 18, 2021

**Independent School District No. 111  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Basic Financial Statements**

Type of auditor's report issued:	We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).
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Internal control over financial reporting:	
<ul style="list-style-type: none"> <li>• Material weakness(es) identified?</li> <li>• Significant deficiency(ies) identified?</li> </ul>	<p>Yes, Audit Finding 2021-001</p> <p>No</p>

Noncompliance material to basic financial statements noted?	No
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**Federal Awards**

Type of auditor's report issued on compliance for major programs:	Unmodified
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Internal control over major programs:	
<ul style="list-style-type: none"> <li>• Material weakness(es) identified?</li> <li>• Significant deficiency(ies) identified?</li> </ul>	<p>No</p> <p>No</p>

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No
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**Identification of Major Programs**

CFDA No:	21.019C
Name of Federal Program or Cluster:	Coronavirus Relief Fund

CFDA No:	10.553/10.555/10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low risk auditee?	No
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**Independent School District No. 111  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

**SECTION II – BASIC FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2021-001**

*Criteria or Specific Requirement:*

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the basic financial statements requires adequate segregation of accounting duties.

*Condition:*

The District does not have adequate segregation of accounting duties.

*Context:*

This finding impacts the internal control for all significant accounting functions.

*Effect or Potential Effect:*

The lack of adequate segregation of accounting duties could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

*Cause:*

There are a limited number of office employees.

*Recommendation:*

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

*Management's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Administration will review current segregation of accounting duties to determine if further segregation is possible.

3. Official Responsible for Ensuring CAP

The Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The planned completion date for the CAP is ongoing.

**Independent School District No. 111  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

**SECTION II – BASIC FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Audit Finding 2021-001 (Continued)**

*Management's Response: (Continued)*

**CORRECTIVE ACTION PLAN (CAP): (Continued)**

5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

None

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**Minnesota Legal Compliance**

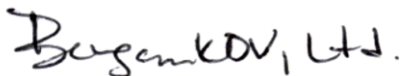
**Independent Auditor's Report**

To the School Board  
Independent School District No. 111  
Watertown-Mayer Schools  
Watertown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2021, and the related notes to basic financial statements, and have issued our report thereon dated October 18, 2021.

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters. However, our audit as 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, insofar as they relate to accounting matters.

The purpose of this report is 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.



St. Cloud, Minnesota  
October 18, 2021