

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

Communications Letter

June 30, 2019

**Independent School District No. 111
Watertown-Mayer Schools
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Report on Matters Identified as a Result of The Audit of the Financial Statements

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

In planning and performing our audit of the 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, 2019, in accordance with auditing standards generally accepted in the United States of America, 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses. 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. The significant deficiency identified is stated within this letter.

he accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 21, 2019, on such statements.

This communication is intended solely for the information and use of management, the School Board, others within the District, and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BergankDV, Ltd.

St. Cloud, Minnesota
October 21, 2019

Independent School District No. 111
Watertown-Mayer Schools
Significant Deficiency

Lack of Segregation of Accounting Duties

The District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Segregation of accounting duties relates to four key processes: initiation, authorization, recording, and reconciliation of financial data. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list.

- The Finance Officer prepares and records journal entries.
- The Food Service Clerk handles cash receipts and prepares the deposit.
- The Community Service Director handles cash receipts and prepares the deposit.

Management and the School Board are aware of this condition and will take certain steps to compensate for the lack of segregation but due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

**Independent School District No. 111
Watertown-Mayer Schools
Required Communication**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2019. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Independent School District No. 111
Watertown-Mayer Schools
Required Communication**

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the financial statements were:

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadlines, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the District for post employment benefits.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

**Independent School District No. 111
Watertown-Mayer Schools
Required Communication**

Qualitative Aspects of Accounting Practices (Continued)

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

We identified the following uncorrected misstatement of the financial statements. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- State aids and receivables

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

**Independent School District No. 111
Watertown-Mayer Schools
Required Communication**

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the District, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditor.

Other Information in Documents Containing Audited Financial Statements

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance.

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this letter. The last section of this report, which contains a summary of legislative changes affecting school districts, gives an indication of how complicated the funding system is. The following section provides some state-wide funding and financial trend information.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

<u>Year</u>	<u>General Education Aid Formula Allowance</u>	
	<u>Amount</u>	<u>Percent Increase</u>
2011	\$ 5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%

* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

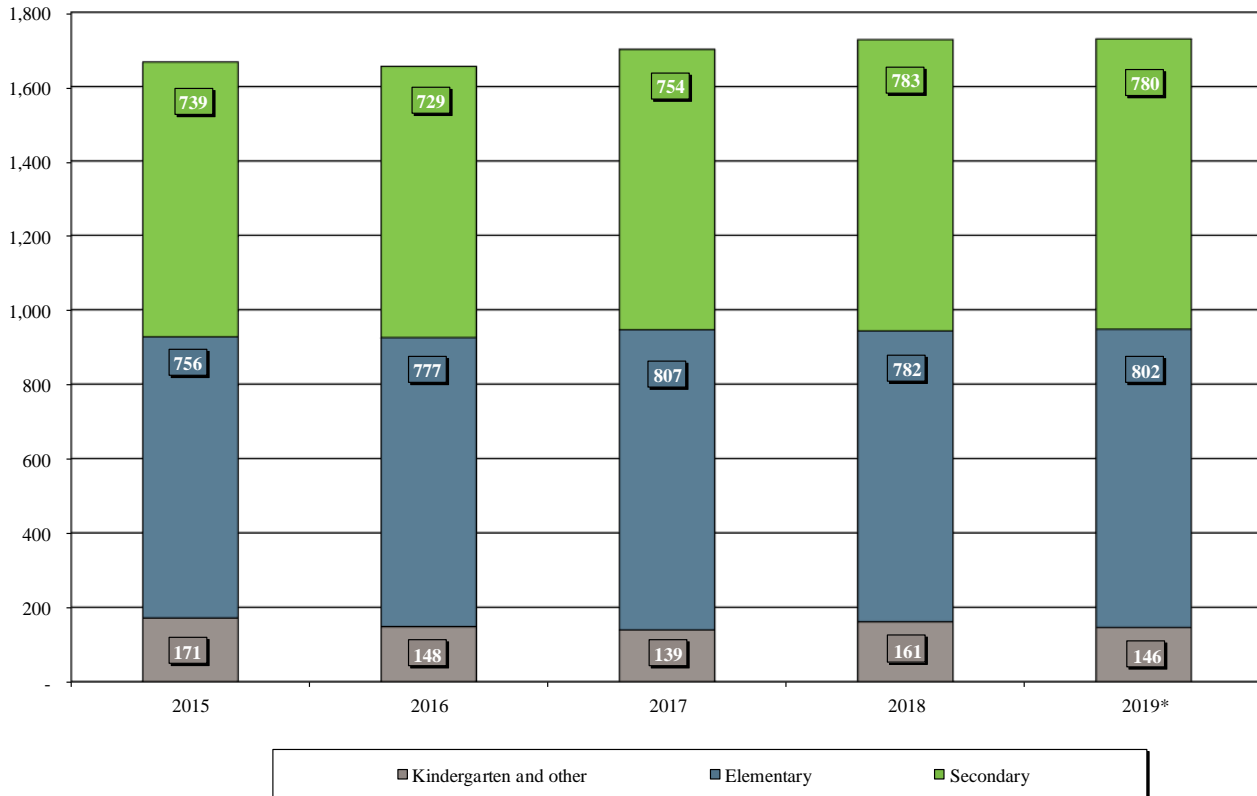
**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

The following summarizes resident ADM of the District over the past five years ended June 30:

Resident ADM	2015	2016	2017	2018	2019*
Kindergarten and other	171	148	139	161	146
Elementary	756	777	807	782	802
Secondary	739	729	754	783	780
Total	1,666	1,654	1,700	1,726	1,728

Student (Average Daily Membership)



* Estimate

Resident ADM has increased 3.7%, or 62 students, over the last five years. Also, Resident ADM increased 0.1%, or 2 students, from 2018 and 2019.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

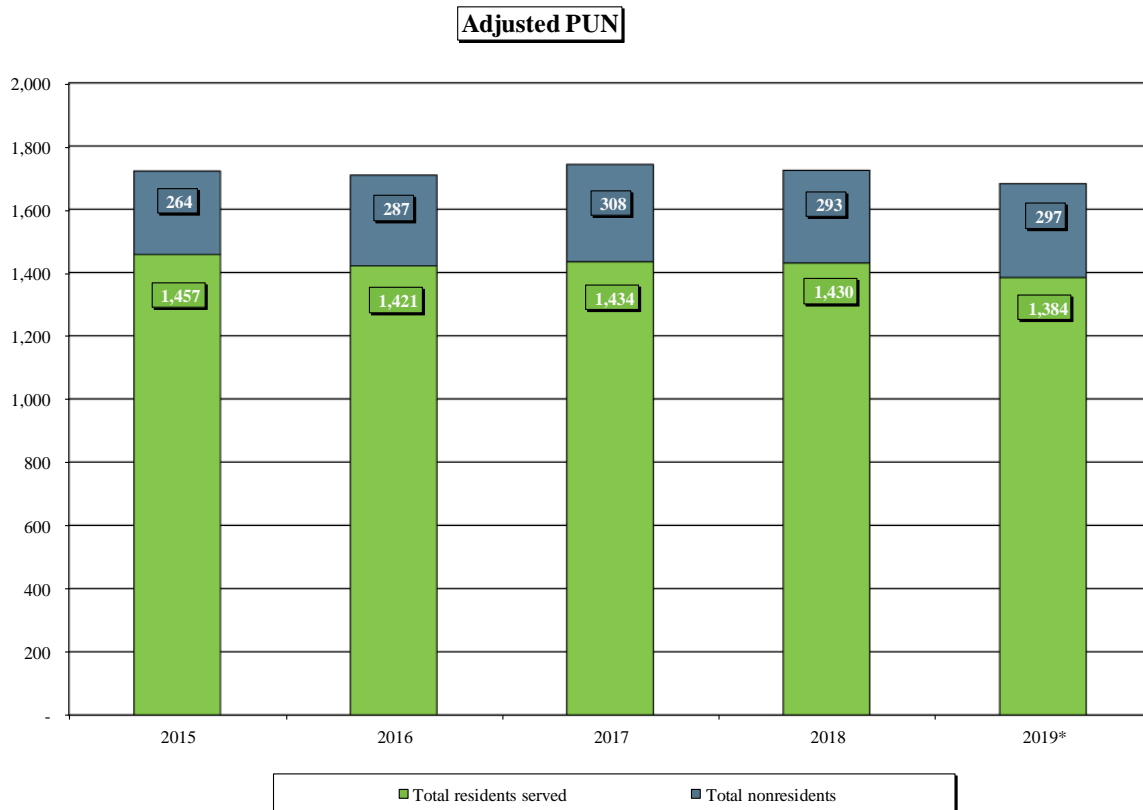
AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting based on the student's grade level. These weighting factors are presented below.

	Pre-Kindergarten	Kindergarten Disabled	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
2015-2019	1.000	1.000	1.000	1.000	1.000	1.200

Resident ADM is converted to adjusted (PUN) below for the same five years:

PUN Served	2015	2016	2017	2018	2019*
Residents	1,814	1,800	1,850	1,883	1,884
Resident PUN going elsewhere	(357)	(379)	(416)	(453)	(500)
Total residents served	1,457	1,421	1,434	1,430	1,384
Total nonresidents	264	287	308	293	297
Total adjusted PUN	1,721	1,708	1,742	1,723	1,681



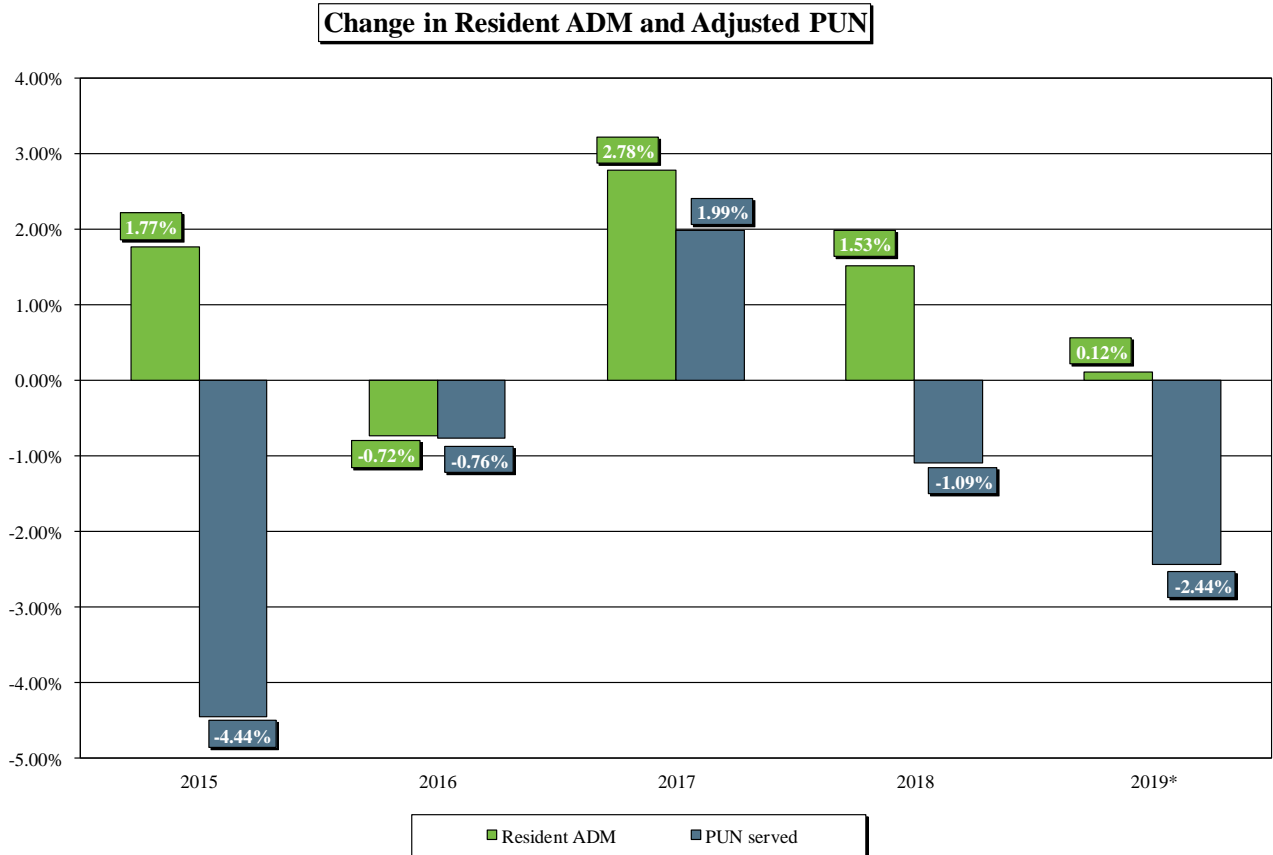
* Estimate

For 2019, PUN decreased 2.4% or 42 students from 2018. Resident PUN going elsewhere increased 10.4%, or 47 students from 2018.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

The following chart and graph illustrate the percentage change from year-to-year in resident ADM and adjusted pupil units.



* Estimate

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

REVENUES AND EXPENDITURES PER ADM SERVED

The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

Revenues per student (ADM served) are summarized in the following table:

General Fund	2015	2016	2017	2018	2019*
Property taxes	\$ 762	\$ 845	\$ 919	\$ 1,024	\$ 1,417
State aid	8,335	8,454	8,372	8,670	8,941
Other	778	723	792	842	834
Total General Fund Revenue	\$ 9,875	\$ 10,022	\$ 10,083	\$ 10,536	\$ 11,191
Districts with 1,000-1,999 ADM**					
Property taxes	\$ 865	\$ 934	\$ 1,028	\$ 1,037	N/A
State aid	8,823	9,108	9,363	9,670	N/A
Other local sources	1,182	1,166	1,079	1,090	N/A
Total General Fund Revenue	\$ 10,869	\$ 11,208	\$ 11,470	\$ 11,797	N/A
State-Wide**					
Property taxes	\$ 1,564	\$ 1,673	\$ 1,815	\$ 1,894	N/A
State aid	9,114	9,435	9,577	9,821	N/A
Other local sources	936	940	972	976	N/A
Total General Fund Revenue	\$ 11,614	\$ 12,048	\$ 12,364	\$ 12,691	N/A

Revenues per student for the General Fund increased 6.2% from 2018 to 2019 as students served decreased 2.3% and revenues increased 3.3%

Expenditures per student (ADM served) are summarized in the following table:

ISD No. 111	2015	2016	2017	2018	2019*
General Fund	\$ 9,919	\$ 9,912	\$ 9,787	\$ 10,069	\$ 10,751
General and special revenue	11,161	11,159	11,103	11,410	12,142
Districts with Enrollment of 1,000-1,999**					
General Fund	\$ 10,665	\$ 10,908	\$ 11,169	\$ 11,648	N/A
General and special revenue	11,613	11,889	12,177	12,651	N/A
State Averages**					
General Fund	\$ 11,527	\$ 11,895	\$ 12,249	\$ 12,596	N/A
General and special revenue	12,573	13,014	13,374	13,752	N/A

* Estimate

** State average expenditures per ADM served for the 1,000 to 1,999 group for 2015-2018 as listed in the MDE publication *School District Profiles*. The 2019 information is not yet available.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

REVENUES AND EXPENDITURES PER ADM SERVED (CONTINUED)

Expenditures per student served for the General Fund increased 6.8% from 2018 to 2019 as students served decreased 2.3% and expenditures increased 3.9%.

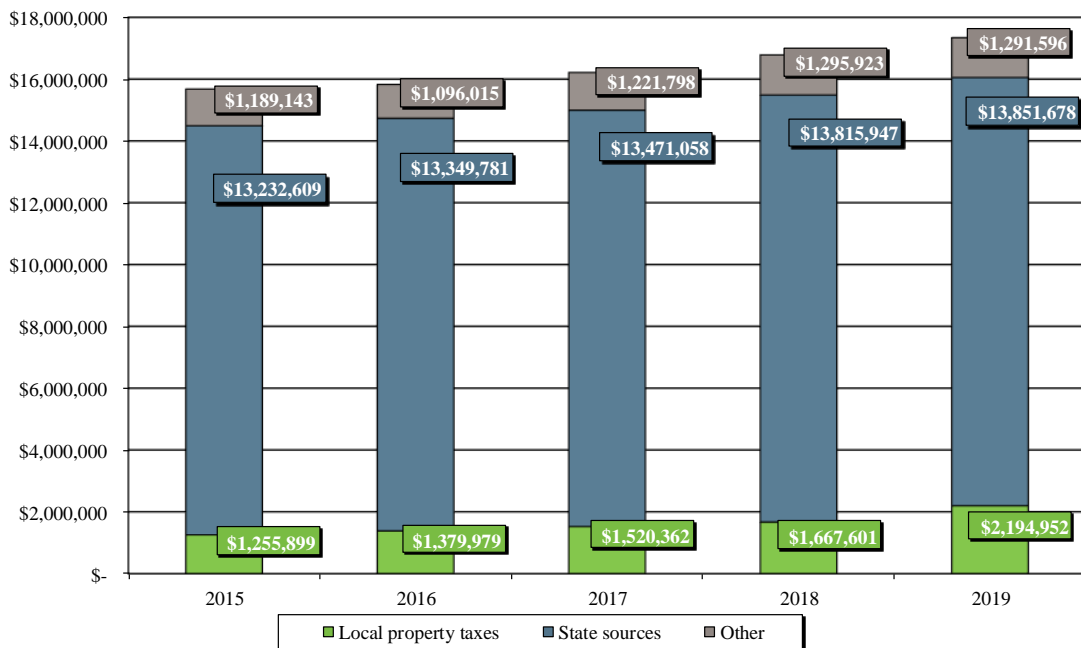
The District's revenues and expenditures per student have been less than similar-sized districts and overall state-wide averages for the past four years where comparative data is available.

GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

	2015	2016	2017	2018	2019
Local property taxes	\$ 1,255,899	\$ 1,379,979	\$ 1,520,362	\$ 1,667,601	\$ 2,194,952
State sources	13,232,609	13,349,781	13,471,058	13,815,947	13,851,678
Other	1,189,143	1,096,015	1,221,798	1,295,923	1,291,596
Total	\$ 15,677,651	\$ 15,825,775	\$ 16,213,218	\$ 16,779,471	\$ 17,338,226

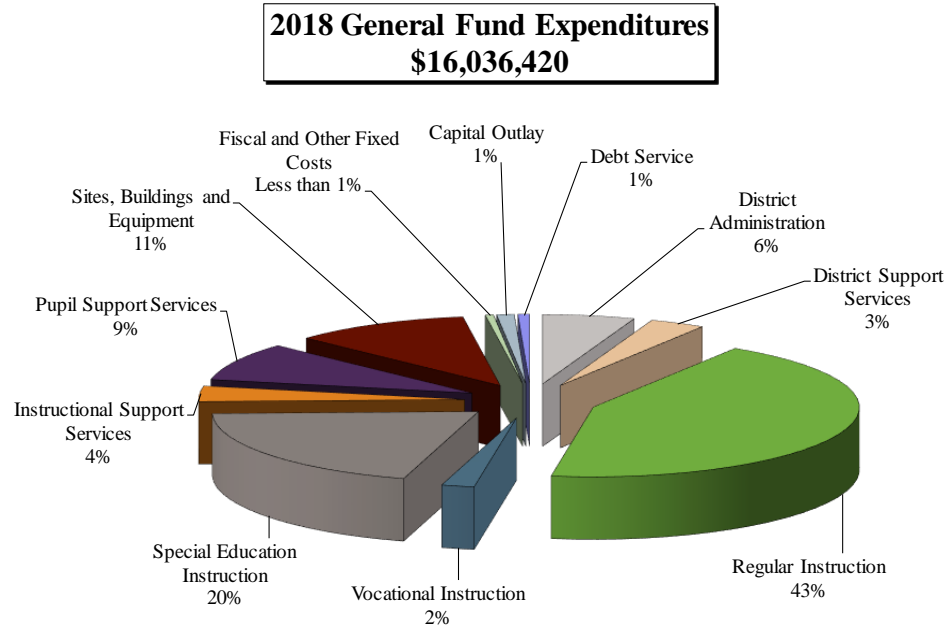
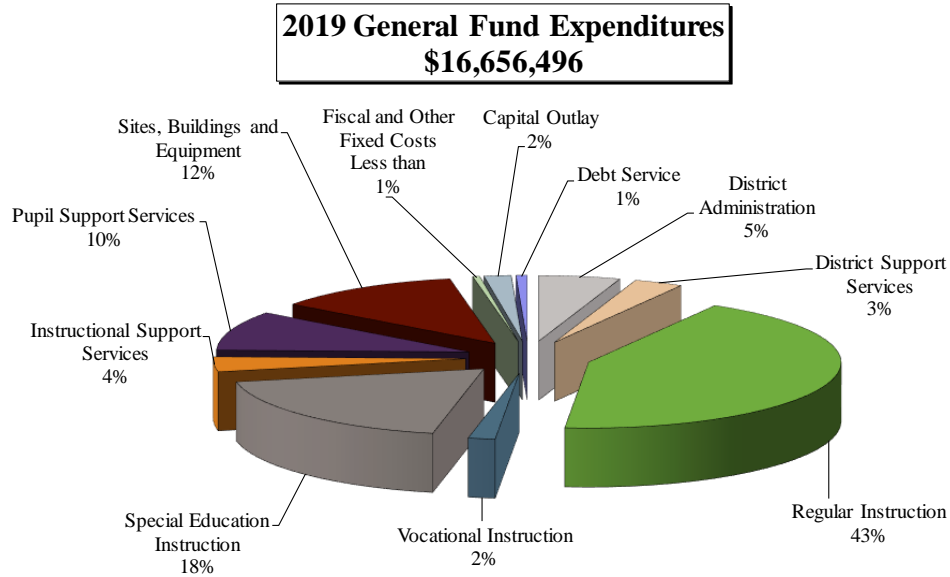
General Fund Sources of Revenue



Total revenue increased \$558,755, or 3.3%, from 2018 to 2019. The most significant portion of the District's funding came from the state in the form of general education revenue. As previously explained, this funding is determined based on student enrollment. Revenue from state sources increased \$35,731 due in part to an increase in the formula allowance offset by a decrease in enrollment. Revenue from local property taxes increased \$527,351 due in part to an increase in the long-term facilities maintenance levy as well as an increase in general fund overall levy due to 2018 being the last year of the allocation for the Alt Facilities Bond. Other Revenues were consistent with prior year.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

GENERAL FUND EXPENDITURES



Expenditures in the General Fund for 2019 increased \$620,076, or 3.9%, from 2018. The most significant increases were \$264,285 in sites and buildings, \$201,603 in regular instruction and \$200,780 in pupil support services. The increase in sites and buildings is due to increased LTFM costs with increased funding. Regular instruction increased with COLA increases and staffing additions. Pupil support services increased with contract increases as well as increased transportation costs. All other programs remained consistent with the prior year.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

GENERAL FUND BUDGETED TO ACTUAL

The chart below presents final budget and actual for General Fund revenues and expenditures.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 2,190,702	\$ 2,172,069	\$ 2,194,952	\$ 22,883
Other local and county revenues	570,540	663,430	754,869	91,439
Revenue from state sources	13,639,795	13,725,614	13,851,678	126,064
Revenue from federal sources	475,236	504,130	500,282	(3,848)
Sales and other conversion of assets	-	-	36,445	36,445
Total revenues	16,876,273	17,065,243	17,338,226	272,983
Expenditures				
Administration	880,083	880,083	868,321	(11,762)
District support services	710,099	729,457	703,761	(25,696)
Elementary and secondary regular instruction	7,129,074	7,230,675	7,223,996	(6,679)
Vocational education instruction	272,436	274,048	286,657	12,609
Special education instruction	3,280,599	3,183,595	3,098,428	(85,167)
Instructional support services	624,185	698,090	603,709	(94,381)
Pupil support services	1,552,195	1,602,195	1,649,159	46,964
Sites and buildings	2,211,133	2,168,673	2,031,361	(137,312)
Fiscal and other fixed cost programs	73,903	73,903	73,903	-
Debt service	117,202	117,202	117,201	(1)
Total expenditures	16,850,909	16,957,921	16,656,496	(301,425)
Excess of revenues over budget	25,364	107,322	681,730	574,408
Other Financing Sources (Uses)	-	-	15,968	15,968
Net change in fund balances	\$ 25,364	\$ 107,322	\$ 697,698	\$ 590,376

Revenues were over budget by 1.6%, or \$272,983. The largest variance was in revenue from state sources. This was a result of budgeting conservatively for general education revenue student counts and not budgeting for the TRA in-kind contribution. Expenditures were under budget by 1.8%, or \$301,425. The most significant variance was in sites and buildings. This was due to budgeting conservatively for LTFM projects.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

GENERAL FUND OPERATIONS

The following table presents five years of comparative operating results for the District's General Fund and the components of the District's fund balance:

For the Year Ended June 30,	2015	2016	2017	2018	2019
Revenues	\$ 15,677,651	\$ 15,825,775	\$ 16,213,218	\$ 16,779,471	\$ 17,338,226
Expenditures	15,746,828	15,652,639	15,737,821	16,036,420	16,656,496
Excess of revenues over (under) expenditures	(69,177)	173,136	475,397	743,051	681,730
Plus other sources	350	135	-	8,775	15,968
Fund balance, July 1	1,289,575	1,220,748	1,394,019	1,869,416	2,621,242
Fund Balance, June 30	\$ 1,220,748	\$ 1,394,019	\$ 1,869,416	\$ 2,621,242	\$ 3,318,940

Components of Fund Balance	2015	2016	2017	2018	2019
Nonspendable	\$ 87,038	\$ 87,855	\$ 84,496	\$ 90,546	\$ 94,213
Restricted/reserved for*					
Staff development	1,735	1,735	1,220	1,220	1,220
Deferred maintenance	2	2	-	-	-
Alternative program	-	-	-	-	2,737
Operating capital	11,598	5,317	-	-	2,586
Long term facilities maintenance	-	-	21,831	268,236	451,937
Medical Assistance	-	-	128,433	218,717	191,556
Assigned	45,295	11,503	2,251	1,345	75,101
Unassigned	1,075,080	1,287,607	1,631,185	2,041,178	2,499,590
Fund Balance, June 30	\$ 1,220,748	\$ 1,394,019	\$ 1,869,416	\$ 2,621,242	\$ 3,318,940

* Negative restricted/reserved amounts are classified as unassigned in the financial statements in accordance with GASB Statement No. 54.

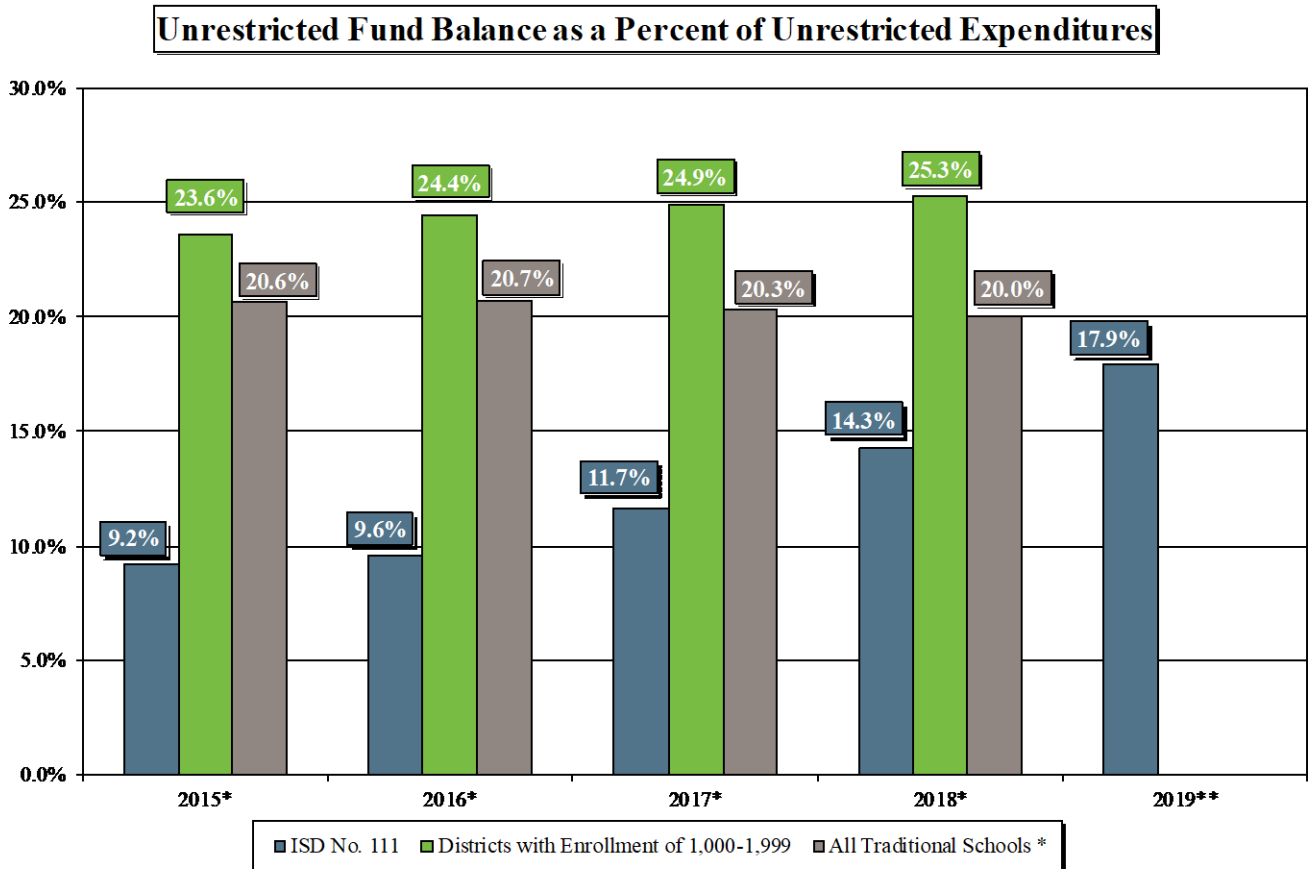
In 2019, the District's revenues increased \$558,755 and expenditures increased \$620,076 as discussed earlier. The General Fund balance increased \$697,698 as a result of current year activity.

The District's goal is to maintain a minimum unassigned General Fund balance of not less than 7% and not more than 20% of the annual operating expenditures for each year. The unassigned fund balance of \$2,499,590 at June 30, 2019, represents 15.0% of current year expenditures.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the fund balance as a percentage of operating expenditures. The chart below provides unrestricted fund balance as a percentage of unrestricted expenditures for the District, all districts state-wide and the District's peer group.



* Source: *School District Profiles*; 2019 data not yet available.

The graph above details the unrestricted fund balance as a percentage of unrestricted expenditures. The District's unrestricted fund balance as a percent of expenditures has remained below the state-wide average and the average for similar size districts for all years presented.

**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

FOOD SERVICE FUND

The following table presents five years of comparative operating results for the District's Food Service Fund:

For the Year Ended June 30,	2015	2016	2017	2018	2019
Revenues	\$ 784,901	\$ 788,812	\$ 785,321	\$ 725,282	\$ 704,335
Expenditures	762,915	769,827	777,229	727,739	663,122
Excess of revenues over (under) expenditures	21,986	18,985	8,092	(2,457)	41,213
Fund balance, July 1	12,653	34,639	53,624	61,716	59,259
Fund Balance, June 30	\$ 34,639	\$ 53,624	\$ 61,716	\$ 59,259	\$ 100,472

In 2019, revenues exceeded expenditures, resulting in an increase in fund balance of \$41,213. Revenues and expenditures decreased compared to the prior year due to decreased participation in breakfast and lunch.

COMMUNITY SERVICE FUND

The following table presents five years of comparative operating results for the District's Community Service Fund:

For the Year Ended June 30,	2015	2016	2017	2018	2019
Revenues and transfers in	\$ 1,241,220	\$ 1,268,511	\$ 1,379,619	\$ 1,446,165	\$ 1,621,746
Expenditures	1,208,190	1,198,741	1,331,973	1,399,726	1,491,314
Excess of revenues over expenditures	33,030	69,770	47,646	46,439	130,432
Fund balance, July 1	27,159	60,189	129,959	177,605	224,044
Fund Balance, June 30	\$ 60,189	\$ 129,959	\$ 177,605	\$ 224,044	\$ 354,476

In 2019, revenues increased by \$175,581 primarily due to an increase in programming, as well as an increase in the levy. Expenditures increased by \$91,588 due to additional staffing needs related to the increased programming. At June 30, 2019, all components of fund balance within the Community Service Fund were positive.

**Independent School District No. 111
Watertown-Mayer Schools
Legislative Summary**

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

The formula allowance for 2019 General Education Aid was increased \$124 (2%) to \$6,312. For 2020 and 2021, the formula allowance is set at \$6,438 and \$6,567, respectively, which is an increase of 2% each year.

COMPENSATORY REVENUE

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue (regular plus pilot grant) must be used for extended time activities. This percentage was 3.5% for 2019. For 2020 and 2021, this percentage increases based on the 2% increases each year in the formula allowance to 5.5% and 7.5%, respectively.

SPECIAL EDUCATION

Beginning in 2020, cross subsidy reduction aid will be established as a new component of the special education aid formula. Cross subsidy reduction aid will be a percentage of each district's initial cross subsidy for the prior fiscal year – 2.6% for 2020 and 6.43% for 2021 and later. The tuition rate paid by the resident school district for open enrolled special education students served by another district or charter school will be reduced from 90% to 85% of unfunded costs for 2020 and to 80% for 2021 and later. The hold harmless calculation will be adjusted to reduce reliance on the 2016 base and factor in current year costs.

For 2020, the special education aid cap is increased to the greater of the current cap or the sum of 56% of current year special education program costs plus 100% of current year special education transportation cost plus the tuition adjustment. For 2021 and later, the cap is eliminated.

Beginning in 2021, the pupil-driven portion of the initial special education aid formula will reflect 2018 data.

The special education hold harmless guarantee is limited to the sum of 90% in 2020, 85% in 2021, 80% in 2022, and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.6% in 2020 until the inflation adjustment reaches 2.0%.

**Independent School District No. 111
Watertown-Mayer Schools
Legislative Summary**

PROPERTY TAX BILL

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. The credit is increased to 50% for taxes payable in 2020, 55% for taxes payable in 2021, 60% for taxes payable in 2022, and 70% for taxes payable in 2023 and thereafter. Total amounts available state-wide will be \$45.2 million in 2020 and \$52.5 million in 2021.

The equalizing factor for tier 2 of the operating referendum was increased from \$510,000 to \$567,000.

BOARD CONTROL OF EXTRACURRICULAR ACTIVITIES

School boards are required to take charge of and control all extracurricular activities. School districts are required to reserve revenue raised for extracurricular activities and spend the revenue only for extracurricular activities.

SAFE SCHOOLS SUPPLEMENTAL AID

Funding is contingent based on the 2019 closing balance and will be up to \$30 million. The aid will be allocated among districts and charter schools based on total adjusted ADMs for 2018. The aid will be available beginning October 1, 2019, and will be allocated during 2020. Aid must be used for the same purposes as the safe schools levy.

VOLUNTARY PREKINDERGARTEN (VPK)/SCHOOL READINESS PLUS

For 2020 and 2021 only, the 4,000 seats currently expiring after 2019 will continue to be funded.

SAFE SCHOOLS REVENUE

Revenue is \$54/PU for 2019 and \$41.50/PU for 2020 and later with a maximum revenue of \$30,000 per District for 2019 and later. Districts must annually report safe schools expenditures to MDE by area and any new staff positions hired beginning in 2019.

DISPOSAL OF SURPLUS COMPUTERS

School districts are authorized to sell or give surplus computers to charitable organizations for educational use or to currently enrolled students who intend to enroll the following year.

ENERGY USE REDUCTIONS AND REPORTING

School districts are required to enter and maintain monthly consumption data into the Minnesota B3 benchmarking program for each school building.

**Independent School District No. 111
Watertown-Mayer Schools
Legislative Summary**

PENSION BILL

Augmentation has been eliminated for TRA members after 12/31/17, and early retirement subsidies have been phased out.

Post-retirement cost of living adjustments (COLAs) have been reduced –

- 1) TRA – lowers the COLA from 2% to 1% for five years; then the rate will increase by 0.1% each year until it reaches 1.5%
- 2) PERA – the increase will be 50% of the increase for Social Security announced January 1, but not less than 0.5% or more than 1.5%
- 3) Defers commencement of COLA for early retirees

The rate of interest paid on refunds of employee contributions to former employees has been reduced from 4% to 3%. TRA required contributions have increased to 7.75% for employees effective FY2024. Required employer contributions will increase 0.21% for FY2019 to FY2023 and 0.2% in FY2024 until a required contribution rate of 8.75% is reached.

Pension adjustment revenue will increase to match the required contribution increases.

**Independent School District No. 111
Watertown-Mayer Schools
Emerging Issues**

Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Accounting Standard Update – GASB Statement No. 84 – Fiduciary Activities** – GASB has issued GASB Statement No. 84 relating to accounting and financial reporting for fiduciary activities. This new statement establishes clarity to determine when a government has fiduciary responsibility for a certain activity.
- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your District.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB Statement No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

**Independent School District No. 111
Watertown-Mayer Schools
Emerging Issues**

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES* (CONTINUED)

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB Statement No. 84 is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It 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.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

**Independent School District No. 111
Watertown-Mayer Schools
Emerging Issues**

**ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – LEASES
(CONTINUED)**

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

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

Financial Statements

June 30, 2019

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, 2019**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Stacy Unowsky	Chair	December 31, 2020
Tim Thompson	Vice Chair	December 31, 2022
Kelly Thaemert	Clerk	December 31, 2020
Erika Schulz	Treasurer	December 31, 2022
Jeffrey Jackson	Director	December 31, 2020
Hunter Feldt	Director	December 31, 2022
Heidi Guetzkow	Director	December 31, 2020
<u>Administration</u>		
Ron Wilke	Superintendent	Appointed

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of June 30, 2019, 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 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.

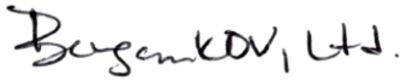
Other Information

Our audit was conducted for the purpose of forming opinions on the 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 financial statements.

The accompanying supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relates 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 is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019, 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 the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



St. Cloud, Minnesota
October 21, 2019

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, 2019. 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 2018 – 2019 is that the District's total general fund balance increased by \$697,698.

OVERVIEW OF THE FINANCIAL STATEMENTS

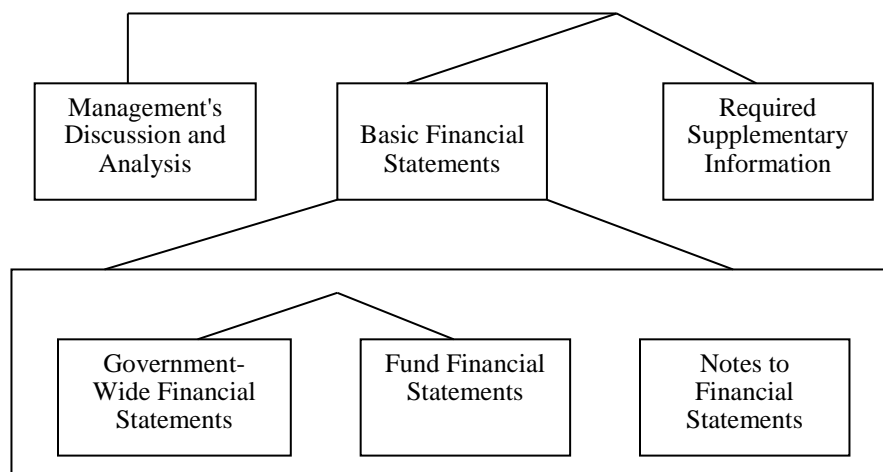
The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information, which includes the MD&A, the basic financial statements, and the supplementary information. The basic financial statements include two kinds of statements that present 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.
 - Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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.

Financial Statements			
	Government Wide	Fund - Governmental	Fund - Fiduciary
Scope	Entire District (except fiduciary funds).	The activities of the District that is not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities.
Required Financial Statements	<ul style="list-style-type: none"> ❖ Statement of Net Position ❖ Statement of Activities 	<ul style="list-style-type: none"> ❖ Balance Sheet ❖ Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> ❖ Statement of Fiduciary Net Position ❖ Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.	Accrual accounting and economic resources 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.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can.
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.	All addition and deductions during the year, regardless of when cash is received or paid.

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 two kinds of funds:

- Governmental Funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the 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**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring the assets reported in these funds are used only by those to whom the assets belong. The District's fiduciary activities (consisting of an agency fund and a private purpose trust fund held for others) are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position on June 30, 2019, was \$6,607,881 (see details in Table A-1 below). This is an increase of \$7,328,425 from June 30, 2018. The increase was due to the District's annual pension adjustment.

Table A-1

	<u>30-June-19</u>	<u>30-Jun-18</u>	<u>Total % Change</u>
Current and Other Assets	\$13,492,816	\$12,279,442	9.88%
Capital Assets	50,873,525	52,347,404	-2.82%
Total Assets	64,366,341	64,626,846	-0.40%
Deferred Outflows of Resources	12,386,199	16,547,553	-25.15%
Total Assets and Deferred Outflows of Resources	<u>76,752,540</u>	<u>\$81,174,399</u>	<u>-5.45%</u>
Long-Term Liabilities	\$44,358,114	\$67,121,172	-33.91%
Current Liabilities	2,220,945	2,012,609	10.35%
Total Liabilities	46,579,059	69,133,781	-32.62%
Deferred Inflow of Resources	23,565,600	12,761,162	84.67%
Net Position			
Net Investment in Capital Assets	17,878,920	15,395,814	16.13%
Restricted	1,749,021	1,229,337	42.27%
Unrestricted	<u>(13,020,060)</u>	<u>(17,345,695)</u>	<u>24.94%</u>
Total Net Position	6,607,881	(720,544)	1017.07%
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$76,752,540</u>	<u>\$81,174,399</u>	<u>-5.45%</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)

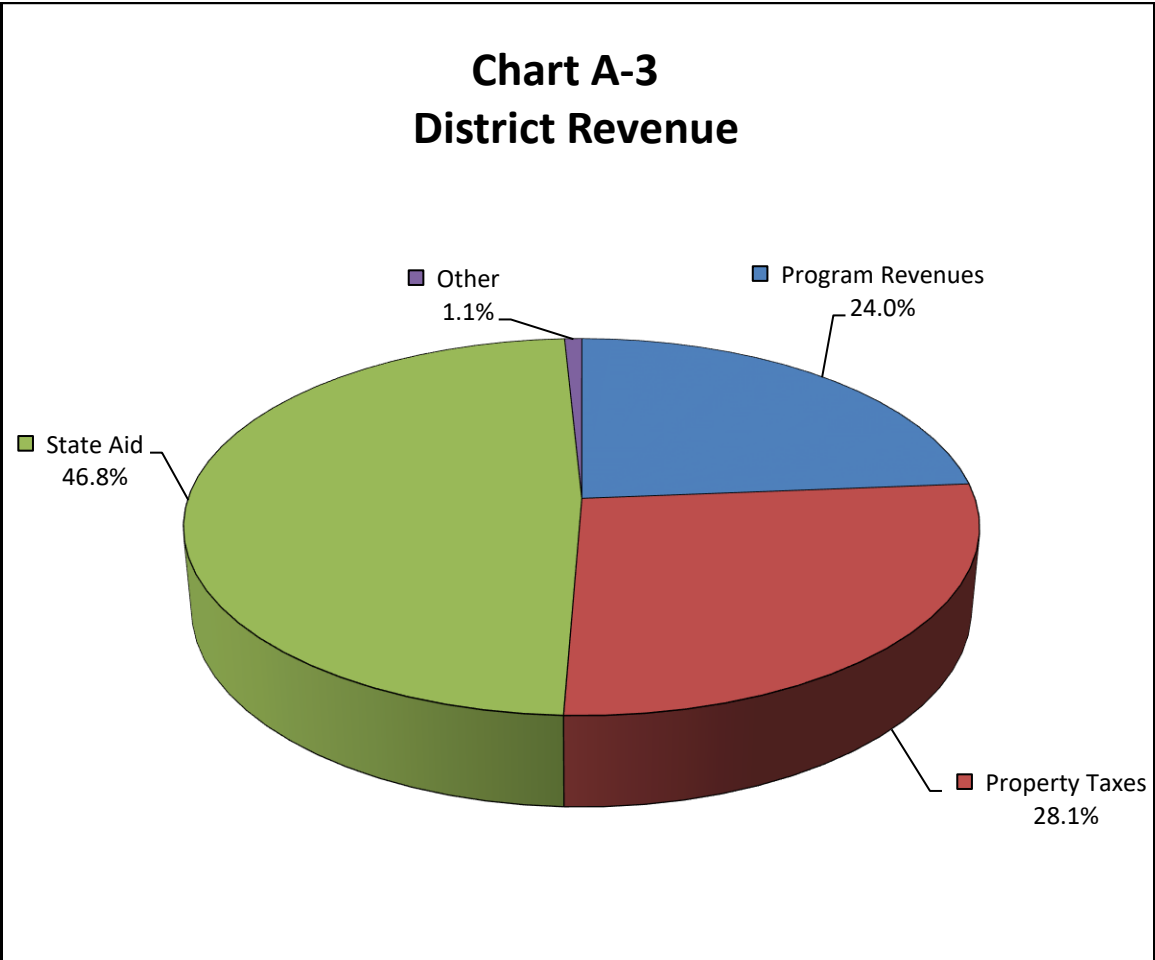
Table A-2

Revenues	<u>2018-2019</u>	<u>2017-2018</u>	<u>Total % Change</u>
Program revenues			
Charges for services	\$1,798,626	\$ 1,692,175	6.29%
Operating grants and contributions	3,502,656	3,572,834	-1.96%
Capital grants and contributions	418,402	368,149	13.65%
General revenues			
Property taxes	6,689,018	6,385,415	4.75%
Aids and payments from state and other	11,162,743	11,529,734	-3.18%
Other sources	<u>267,350</u>	<u>191,061</u>	<u>39.93%</u>
Total revenues	23,838,795	23,739,368	0.42%
Expenses			
Administration	608,978	1,153,009	-47.18%
District support services	614,305	587,885	4.49%
Elementary and secondary regular instruction	4,641,815	9,393,715	-50.59%
Vocational instruction	169,894	443,758	-61.71%
Special education instruction	2,207,443	4,063,903	-45.68%
Instructional support services	481,399	710,787	-32.27%
Pupil support services	1,627,657	1,586,626	2.59%
Site, buildings and equipment	3,501,948	3,277,079	6.86%
Fiscal and other fixed cost programs	73,903	78,989	-6.44%
Food service	658,891	739,934	-10.95%
Community education and services	1,218,204	1,449,362	-15.95%
Interest and fiscal charges on long-term debt	<u>705,933</u>	<u>804,173</u>	<u>-12.22%</u>
Total expenses	16,510,370	24,289,220	-32.03%
Change in net position	7,328,425	(549,852)	1,432.80%
Net position – beginning	(720,544)	626,812	-214.95%
Change in accounting principle	<u>-</u>	<u>(797,504)</u>	<u>100.00%</u>
Net position – ending	<u>\$ 6,607,881</u>	<u>\$ (720,544)</u>	<u>1,017.07%</u>

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

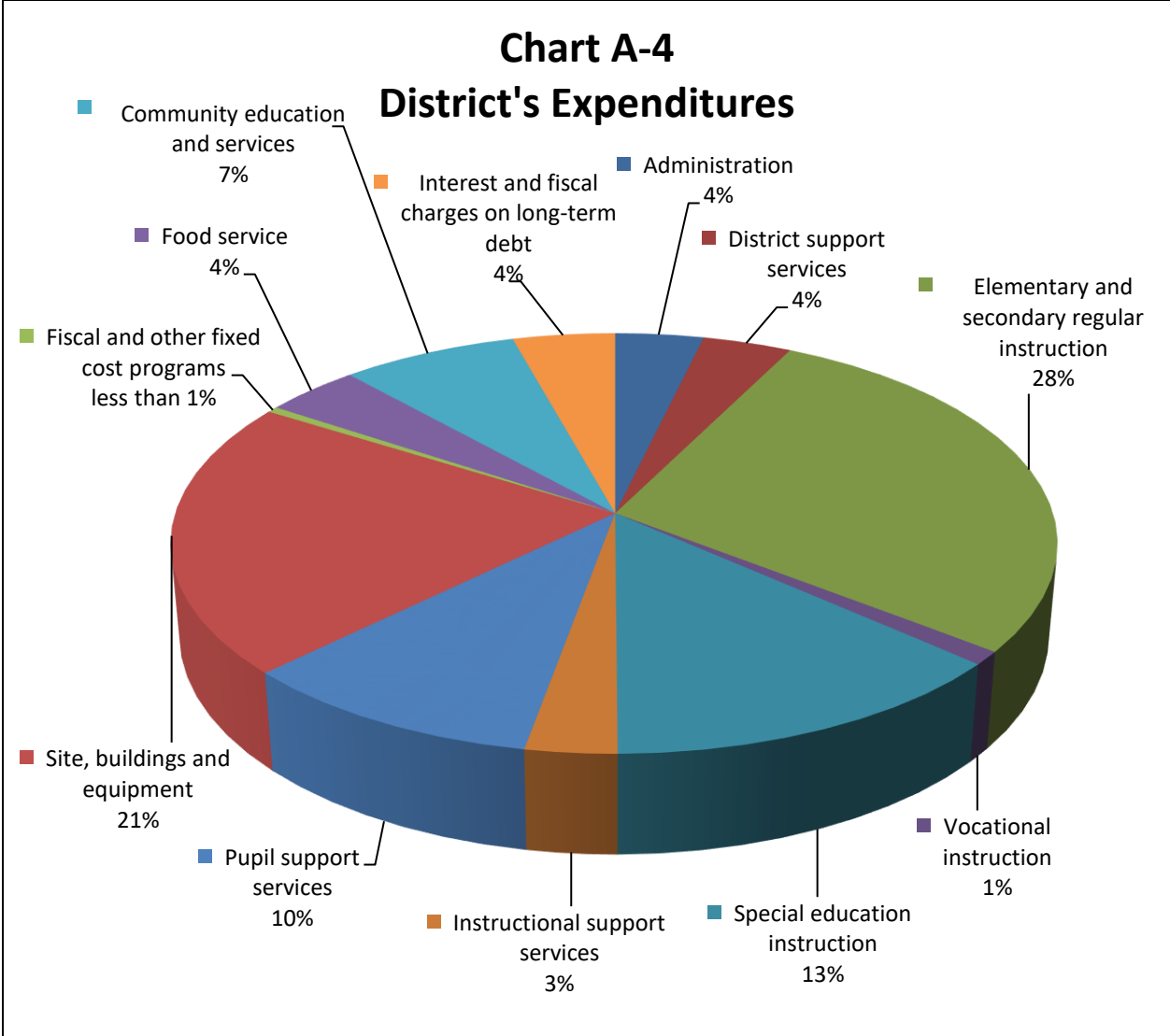
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The District's total revenue consisted of program revenues of \$5,719,684, property taxes of \$6,689,018, aid payments from the state and other of \$11,162,743 and \$267,350 from miscellaneous other sources. Expenses totaling \$16,510,370 consisted mainly of regular, vocational, special education instruction, instructional support and pupil support cost of \$9,128,208. Other areas of cost included: support services (District and administrative) totaling \$1,223,283, sites, building and equipment \$3,501,948, fiscal and other fixed cost of \$73,903, food services activities \$658,891, Community Education activities of \$1,218,204 and interest and other fiscal changes on long-term, debt of \$705,933.



**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 \$558,755 or about 3.33% 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 to increases in property tax levy from the Pay 2018 levy cycle due to the completion of the operating capital adjustment.

Total General Fund expenditures increased \$620,076 or about 3.87% from the prior year. Factors contributing to the increase were capital purchases.

Table A-5

	General Fund Revenues		Change	
	Year Ended			
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	Increase / (Decrease)	Percentage
Local sources	\$ 754,869	\$ 737,234	\$ 17,635	2.39%
Property taxes	2,194,952	1,667,601	527,351	31.62%
Other	36,445	31,069	5,376	17.30%
State sources	13,851,678	13,815,947	35,731	.26%
Federal sources	500,282	527,620	-27,338	-5.18%
Total	17,338,226	\$ 16,779,471	\$ 558,755	3.33%
	General Fund Expenses			
	Year Ended			
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	Increase / (Decrease)	Percentage
Salaries	\$ 9,101,110	\$ 9,151,854	\$ (50,743)	-0.55%
Employee benefits	2,655,648	2,632,792	22,856	0.87%
Purchased services	3,719,171	3,203,474	515,697	16.10%
Supplies and materials	646,903	619,812	27,092	4.37%
Capital expenditures	405,713	282,122	123,591	43.81%
Other expenditures	127,951	146,366	(18,416)	-33.80%
Total	16,656,496	\$ 16,036,420	\$ 620,076	3.87%

**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 an increase in combined fund balance of \$1,000,310 for an overall combined District fund balance of \$4,719,665.

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

Fund	June 30, 2018 Fund Balance	Revenues and other financing sources	Expenditures	June 30, 2019 Fund Balance	Change
General	\$2,621,242	\$17,354,194	\$16,656,496	\$3,318,940	\$697,698
Food Service	59,259	704,335	663,122	100,472	41,213
Community Ed	224,044	1,621,746	1,491,314	354,476	30,432
Debt Service	14,810	4,728,830	4,597,863	945,777	130,967
Total	\$3,719,355	\$24,409,105	\$23,408,795	\$4,719,665	\$1,003,310

General Fund Budgetary Highlights

The District's final General Fund budget anticipated that expenditures would exceed revenues by \$107,322. The actual result was an increase in fund balance of \$697,698. Revenues were \$272,983 over budget (1.59% of the projected budget) and expenditures were \$301,425 under budget (1.78% of the projected budget). The final budget was modified from the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

By the end of 2019, the District had invested \$74,030,836 in a broad range of capital assets, including land, school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7). Total accumulated depreciation increased \$1,533,302 from 2018. 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**

	2019	2018
Land	\$ 26,700	\$ 26,700
Land improvements	414,769	414,769
Building and improvements	71,284,843	71,284,843
Equipment	2,304,524	2,245,101
Less: accumulated depreciation	(23,157,311)	(21,624,009)
Total	\$ 50,873,525	\$ 52,347,404

Long-Term Debt

At June 30, 2019 the District had \$30,280,000 in general obligation bond payable. This is a decrease of \$3,515,000 from June 30, 2018. 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**

	2019	2018
General Obligation Bonds	\$ 30,280,000	\$ 33,795,000
Premiums on Bonds	2,154,206	2,503,689
Certificates of Participation	560,399	652,901
Compensated Absences	218,075	197,822
Total	\$ 33,212,680	\$ 37,149,412
Long-Term Liabilities		
Due within one year	3,923,156	\$3,714,834
Due in more than one year	29,289,524	33,434,578
Total	\$ 33,212,680	\$ 37,149,412

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. 2019 shows a decrease from 2018. Future enrollment will be monitored closely to assure accurate budgeting.

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

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

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

Grade	2015	2016	2017	2018	2019
K	132.50	119.75	90.53	102.39	109.47
1-3	339.64	355.79	376.12	353.74	312.98
4-6	356.60	351.19	358.58	337.20	363.27
7-12	718.98	714.35	746.78	753.23	728.73
Total K - 12 ADM	1,547.72	1,541.09	1,572.01	1,546.56	1,514.45
ADM change	9.70	(6.63)	30.92	(25.45)	(32.11)

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
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets	
Cash and investments (including cash equivalents)	\$ 7,966,383
Current property taxes receivable	3,972,654
Delinquent property taxes receivable	154,321
Accounts receivable	34,725
Due from Department of Education	958,052
Due from Federal Government through Department of Education	260,219
Due from other Minnesota school districts	117
Due from other governmental units	31,052
Inventory	21,900
Prepaid items	93,393
Capital assets, not being depreciated	
Land	26,700
Capital assets, net of accumulated depreciation	
Land improvements	7,132
Buildings	50,256,929
Equipment	582,764
Total assets	64,366,341
Deferred Outflows of Resources	
Deferred outflows related to OPEB	53,307
Deferred outflows related to pensions	12,332,892
Total deferred outflows of resources	12,386,199
Total assets and deferred outflows of resources	\$ 76,752,540
Liabilities	
Accounts payable	\$ 336,902
Salaries and benefits payable	1,287,054
Interest payable	390,646
Due to other Minnesota school districts	138,331
Due to other governmental units	47,109
Unearned revenue	20,903
Bond principal payable	
Payable within one year	3,640,000
Payable after one year	28,794,206
Certificates of participation	
Payable within one year	101,681
Payable after one year	458,718
Compensated absences payable	
Payable within one year	181,475
Payable after one year	36,600
Total OPEB liability	633,000
Net pension liability	10,512,434
Total liabilities	46,579,059
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	6,822,728
Deferred inflows related to OPEB	149,635
Deferred inflows related to pensions	16,593,237
Total deferred inflows of resources	23,565,600
Net Position	
Net investment in capital assets	17,878,920
Restricted	
Debt service	639,030
Other purposes	1,109,991
Unrestricted	(13,020,060)
Total net position	6,607,881
Total liabilities, deferred inflows of resources, and net position	\$ 76,752,540

See notes to financial statements.

Independent School District No. 111
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
Governmental activities					Governmental Activities
Administration	\$ 608,978	\$ -	\$ -	\$ -	\$ (608,978)
District support services	614,305	-	-	-	(614,305)
Elementary and secondary regular instruction	4,641,815	291,440	855,486	-	(3,494,889)
Vocational education instruction	169,894	865	17,070	-	(151,959)
Special education instruction	2,207,443	94,543	1,962,411	-	(150,489)
Instructional support services	481,399	5,740	-	-	(475,659)
Pupil support services	1,627,657	-	47,366	-	(1,580,291)
Sites and buildings	3,501,948	-	-	418,402	(3,083,546)
Fiscal and other fixed cost programs	73,903	-	-	-	(73,903)
Food service	658,891	441,369	262,966	-	45,444
Community education and services	1,218,204	964,669	357,357	-	103,822
Interest and fiscal charges on long-term debt	705,933	-	-	-	(705,933)
Total governmental activities	<u>\$ 16,510,370</u>	<u>\$ 1,798,626</u>	<u>\$ 3,502,656</u>	<u>\$ 418,402</u>	(10,790,686)
General revenues					
Taxes					
Property taxes, levied for general purposes					2,199,018
Property taxes, levied for community service					299,870
Property taxes, levied for debt service					4,190,130
State aid-formula grants					11,162,743
Other general revenues					123,967
Investment income					127,415
Gain on disposal of capital assets					15,968
Total general revenues					<u>18,119,111</u>
Change in net position					7,328,425
Net position - beginning					<u>(720,544)</u>
Net position - ending					<u>\$ 6,607,881</u>

Independent School District No. 111
Watertown, Minnesota
Balance Sheet - Governmental Funds
June 30, 2019

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 4,552,124	\$ 2,738,049	\$ 676,210	\$ 7,966,383
Current property taxes receivable	1,223,554	2,578,560	170,540	3,972,654
Delinquent property taxes receivable	40,510	107,332	6,479	154,321
Accounts receivable	24,053	-	10,672	34,725
Due from Department of Education	889,698	54,153	14,201	958,052
Due from Federal Government through Department of Education	260,219	-	-	260,219
Due from other Minnesota school districts	-	-	117	117
Due from other governmental units	31,052	-	-	31,052
Inventory	820	-	21,080	21,900
Prepaid items	93,393	-	-	93,393
Total assets	\$ 7,115,423	\$ 5,478,094	\$ 899,299	\$ 13,492,816
Liabilities				
Accounts payable	\$ 275,856	\$ -	\$ 61,046	\$ 336,902
Salaries and benefits payable	1,236,540	-	50,514	1,287,054
Due to other Minnesota school districts	138,331	-	-	138,331
Due to other governmental units	47,109	-	-	47,109
Unearned revenue	-	-	20,903	20,903
Total liabilities	1,697,836	-	132,463	1,830,299
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	2,066,612	4,449,235	306,881	6,822,728
Unavailable revenue - delinquent property taxes	32,035	83,082	5,007	120,124
Total deferred inflows of resources	2,098,647	4,532,317	311,888	6,942,852
Fund Balances				
Nonspendable	94,213	-	21,080	115,293
Restricted	650,036	945,777	433,868	2,029,681
Assigned	75,101	-	-	75,101
Unassigned	2,499,590	-	-	2,499,590
Total fund balances	3,318,940	945,777	454,948	4,719,665
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,115,423	\$ 5,478,094	\$ 899,299	\$ 13,492,816

**Independent School District No. 111
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2019**

Total fund balances - governmental funds	\$ 4,719,665
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	74,030,836
Less accumulated depreciation	(23,157,311)
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	(30,280,000)
Premium on bonds payable	(2,154,206)
Certificates of participation	(560,399)
Compensated absences	(218,075)
Total OPEB liability	(633,000)
Net pension liability	(10,512,434)
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	53,307
Deferred outflows of resources related to pensions	12,332,892
Deferred inflows of resources related to OPEB	(149,635)
Deferred inflows of resources related to pensions	(16,593,237)
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.	
	120,124
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	
	<u>(390,646)</u>
Total net position - governmental activities	<u>\$ 6,607,881</u>

Independent School District No. 111
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2019

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Local property taxes	\$ 2,194,952	\$ 4,187,082	\$ 299,720	\$ 6,681,754
Other local and county revenues	754,869	-	1,031,073	1,785,942
Revenue from state sources	13,851,678	541,748	322,369	14,715,795
Revenue from federal sources	500,282	-	231,550	731,832
Sales and other conversion of assets	36,445	-	441,369	477,814
Total revenues	<u>17,338,226</u>	<u>4,728,830</u>	<u>2,326,081</u>	<u>24,393,137</u>
Expenditures				
Current				
Administration	868,243	-	-	868,243
District support services	523,817	-	-	523,817
Elementary and secondary regular instruction	7,187,522	-	-	7,187,522
Vocational education instruction	286,657	-	-	286,657
Special education instruction	3,094,171	-	-	3,094,171
Instructional support services	603,709	-	-	603,709
Pupil support services	1,620,721	-	82,008	1,702,729
Sites and buildings	1,992,041	-	-	1,992,041
Fiscal and other fixed cost programs	73,903	-	-	73,903
Food service	-	-	660,823	660,823
Community education and services	-	-	1,393,812	1,393,812
Capital outlay				
Administration	78	-	-	78
District support services	179,944	-	-	179,944
Elementary and secondary regular instruction	36,474	-	-	36,474
Special education instruction	4,257	-	-	4,257
Pupil support services	28,438	-	-	28,438
Sites and buildings	39,320	-	-	39,320
Food service	-	-	2,299	2,299
Community education and services	-	-	15,494	15,494
Debt service				
Principal	92,502	3,515,000	-	3,607,502
Interest and fiscal charges	24,699	1,082,863	-	1,107,562
Total expenditures	<u>16,656,496</u>	<u>4,597,863</u>	<u>2,154,436</u>	<u>23,408,795</u>
Excess of revenues over expenditures	681,730	130,967	171,645	984,342
Other Financing Sources				
Proceeds from sale of capital assets	15,968	-	-	15,968
Net change in fund balances	697,698	130,967	171,645	1,000,310
Fund Balances				
Beginning of year	<u>2,621,242</u>	<u>814,810</u>	<u>283,303</u>	<u>3,719,355</u>
End of year	<u>\$ 3,318,940</u>	<u>\$ 945,777</u>	<u>\$ 454,948</u>	<u>\$ 4,719,665</u>

See notes to financial statements.

**Independent School District No. 111
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2019**

Net change in fund balances - total governmental funds \$ 1,000,310

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, the cost of those assets is allocated over the Estimated useful lives as depreciation expense.

Capital outlays	135,739
Depreciation expense	(1,609,618)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(20,253)
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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.	14,250
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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.	3,607,502
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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.	349,483
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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.	3,791,602
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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 fund:	7,264
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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.	52,146
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Change in net position - governmental activities	\$ 7,328,425
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Independent School District No. 111
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 2,190,702	\$ 2,172,069	\$ 2,194,952	\$ 22,883
Other local and county revenues	570,540	663,430	754,869	91,439
Revenue from state sources	13,639,795	13,725,614	13,851,678	126,064
Revenue from federal sources	475,236	504,130	500,282	(3,848)
Sales and other conversion of assets	-	-	36,445	36,445
Total revenues	<u>16,876,273</u>	<u>17,065,243</u>	<u>17,338,226</u>	<u>272,983</u>
Expenditures				
Current				
Administration	880,083	880,083	868,243	(11,840)
District support services	595,559	572,917	523,817	(49,100)
Elementary and secondary regular instruction	7,084,858	7,187,959	7,187,522	(437)
Vocational education instruction	272,436	274,048	286,657	12,609
Special education instruction	3,235,305	3,161,995	3,094,171	(67,824)
Instructional support services	601,685	698,090	603,709	(94,381)
Pupil support services	1,507,401	1,557,401	1,620,721	63,320
Sites and buildings	2,161,109	2,072,109	1,992,041	(80,068)
Fiscal and other fixed cost programs	73,903	73,903	73,903	-
Capital outlay				
Administration	-	-	78	78
District support services	114,540	156,540	179,944	23,404
Elementary and secondary regular instruction	44,216	42,716	36,474	(6,242)
Special education instruction	45,294	21,600	4,257	(17,343)
Instructional support services	22,500	-	-	-
Pupil support services	44,794	44,794	28,438	(16,356)
Sites and buildings	50,024	96,564	39,320	(57,244)
Debt service				
Principal	92,502	92,502	92,502	-
Interest and fiscal charges	24,700	24,700	24,699	(1)
Total expenditures	<u>16,850,909</u>	<u>16,957,921</u>	<u>16,656,496</u>	<u>(301,425)</u>
Excess of revenues over expenditures	25,364	107,322	681,730	574,408
Other Financing Sources				
Proceeds from sale of capital assets	-	-	15,968	15,968
Net change in fund balance	<u>\$ 25,364</u>	<u>\$ 107,322</u>	697,698	<u>\$ 590,376</u>
Fund Balance				
Beginning of year			<u>2,621,242</u>	
End of year			<u>\$ 3,318,940</u>	

**Independent School District No. 111
Statement of Fiduciary Net Position
June 30, 2019**

	Private Purpose Trust Fund
Assets	
Cash and investments	\$ 58,474
Liabilities	
Due to students	\$ 430
Net Position	
Held in trust for scholarships	58,044
Total liabilities and net position	\$ 58,474

**Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2019**

	Private Purpose Trust Fund
Additions	
Contributions	\$ 2,200
Interest revenue	94
Total additions	2,294
Deductions	
Scholarship	38,347
Change in net position	(36,053)
Net Position	
Beginning of year	94,097
End of year	\$ 58,044

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Independent School District No. 111
Notes to 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 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 not under the School Board's control; therefore, separate audited financial statements have been issued. As of July 1, 2019, these accounts have been taken under board control and will not be 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, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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.

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

The fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these Funds are not incorporated into the government-wide 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, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

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 12th grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

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.

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.

Fiduciary Fund:

Private Purpose Trust Fund – This fund is used for reporting resources that are to be used for scholarships to support students that continue their education.

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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

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, 2019, were comprised of deposits, shares in the Minnesota Trust (MNTrust) Investment Shares Portfolio and MNTrust Term 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

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. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

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 2018, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2019. The remaining portion of the levy will be recognized when measurable and available.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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. 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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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/expenditure) 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.

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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019, 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.

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, 2019.

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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance (Continued)

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the 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.
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 Fund; however, during the year, the District approved a Debt Service Fund budget.
4. Budgets for the General, Special Revenue, and Debt Service 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, 2019, the District deposits were not exposed to custodial credit risk.

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

Checking	\$ 393,530
Certificate of deposit	<u>1,776,237</u>
Total	<u><u>\$ 2,169,767</u></u>

Independent School District No. 111
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

Investment Type	Investment Maturity (In Years)		
	Fair Value	Less Than 1 Year	Moody's Rating
MN Trust Investment Shares Portfolio	\$ 2,853,940	\$ 2,853,940	AAAm
MN Trust Term Series	3,000,000	3,000,000	AAAm
Total	\$ 5,853,940	\$ 5,853,940	

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. The District's investments were not exposed to concentration of credit risk.

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 following is a summary of total deposits and investments.

Petty cash	\$ 1,150
Deposits	2,169,767
Investments	5,853,940
Total	\$ 8,024,857

Independent School District No. 111
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

Deposits and investments are presented in the June 30, 2019, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 7,966,383
Statement of Fiduciary Net Position	
Private Purpose Trust Fund - cash and investments	58,474
Total deposits and investments	\$ 8,024,857

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 26,700	\$ -	\$ -	\$ 26,700
Capital assets being depreciated				
Land improvements	414,769	-	-	414,769
Buildings	71,284,843	-	-	71,284,843
Equipment	2,245,101	135,739	76,316	2,304,524
Total capital assets being depreciated	73,944,713	135,739	76,316	74,004,136
Less accumulated depreciation for				
Land improvements	400,461	7,176	-	407,637
Buildings	19,528,614	1,499,300	-	21,027,914
Equipment	1,694,934	103,142	76,316	1,721,760
Total accumulated depreciation	21,624,009	1,609,618	76,316	23,157,311
Total capital assets being depreciated, net	52,320,704	(1,473,879)	-	50,846,825
Governmental activities, capital assets, net	\$ 52,347,404	\$ (1,473,879)	\$ -	\$ 50,873,525

Independent School District No. 111
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2019, was charged to the following governmental functions:

Administration	\$ 612
District support services	37,827
Elementary and secondary regular instruction	16,365
Special education instruction	4,318
Instructional support services	3,499
Pupil support services	5,483
Sites and buildings	1,531,830
Food service	8,153
Community service	1,531
	<u>1,609,618</u>
Total depreciation expense	<u>\$ 1,609,618</u>

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	\$ 18,025,000	\$ 2,340,000
2013A G.O. Alternative Facilities Bonds	04/30/13	.04%-3.0%	3,175,000	02/01/33	2,460,000	70,000
2015A G.O. School Building Refunding Bonds	11/24/15	3.0%	5,055,000	02/01/22	1,895,000	875,000
2015B G.O. School Building Refunding Bonds	11/24/15	2.0%-4.0%	8,115,000	02/01/26	7,900,000	355,000
Unamortized premium on bonds					2,154,206	-
Total G.O. bonds, net of premium					32,434,206	3,640,000
Certificates of participation	07/09/10	4.04%	1,262,512	02/07/24	560,399	101,681
Compensated absences payable					218,075	181,475
Total all long-term liabilities					\$ 33,212,680	\$ 3,923,156

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 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
2020	\$ 3,640,000	\$ 947,100	\$ 4,587,100
2021	3,775,000	815,796	4,590,796
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
2025-2029	9,570,000	536,252	10,106,252
2030-2033	1,030,000	91,330	1,121,330
Total	<u>\$ 30,280,000</u>	<u>\$ 4,023,214</u>	<u>\$ 34,303,214</u>

Year Ending June 30,	Certificates of Participation		
	Principal	Interest	Total
2020	\$ 101,681	\$ 20,794	\$ 122,475
2021	111,481	16,506	127,987
2022	121,935	11,811	133,746
2023	133,083	6,681	139,764
2024	92,219	1,297	93,516
Total	<u>\$ 560,399</u>	<u>\$ 57,089</u>	<u>\$ 617,488</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. school bonds	\$ 33,795,000	\$ -	\$ 3,515,000	\$ 30,280,000
Certificates of participation	652,901	-	92,502	560,399
Premium on bonds	2,503,689	-	349,483	2,154,206
Compensated absences payable	197,822	117,799	97,546	218,075
Total long-term liabilities	<u>\$ 37,149,412</u>	<u>\$ 117,799</u>	<u>\$ 4,054,531</u>	<u>\$ 33,212,680</u>

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

Independent School District No. 111
Notes to 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	Other Nonmajor Funds	Total
Nonspendable				
Inventory	\$ 820	\$ -	\$ 21,080	\$ 21,900
Prepaid items	93,393	-	-	93,393
Total nonspendable	<u>94,213</u>	<u>-</u>	<u>21,080</u>	<u>115,293</u>
Restricted/reserved for				
Staff Development	1,220	-	-	1,220
LTFM	451,937	30	-	451,967
Operating capital	2,586	-	-	2,586
State-Approved Alternative Programs	2,737	-	-	2,737
Medical Assistance	191,556	-	-	191,556
Debt Service	-	945,747	-	945,747
Food Service	-	-	79,392	79,392
Community Education	-	-	288,934	288,934
Early Childhood Family Education	-	-	33,948	33,948
School Readiness	-	-	16,578	16,578
Community Service	-	-	15,016	15,016
Total restricted/reserved	<u>650,036</u>	<u>945,777</u>	<u>433,868</u>	<u>2,029,681</u>
Assigned for				
HRA Rollovers	101	-	-	101
Senior Center Improvements	75,000	-	-	75,000
Total assigned	<u>75,101</u>	<u>-</u>	<u>-</u>	<u>75,101</u>
Unassigned	<u>2,499,590</u>	<u>-</u>	<u>-</u>	<u>2,499,590</u>
Total fund balance	<u>\$ 3,318,940</u>	<u>\$ 945,777</u>	<u>\$ 454,948</u>	<u>\$ 4,719,665</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.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subdivision 1).

Independent School District No. 111
Notes to 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 State Approved Alternative Programs – Per *Minnesota Statutes*, section 123.05, subd. 2, each district that is a member of a state approved alternative learning program must restrict/reserve revenue in an amount equal to the sum of (1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to section 126.10 subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved public alternative program, plus (2) the amount of basic skills revenue generated by pupils attending the alternative learning program.

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 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 – This balance represents amounts set aside for the District's prior insurance policy HRA rollovers, which are due to employees and the Senior Center Improvements.

Independent School District No. 111
Notes to 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, 2019, was (\$3,538,176). 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, charter schools and certain educational institutions maintained by the state are required to be TRA members (except those teachers employed by the cities of Duluth and St. Paul Public Schools or Minnesota State Colleges and Universities. Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

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 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.

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

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

Teachers' Retirement Association (Continued)

C. Benefits Provided (Continued)

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

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

C. Contribution Rate

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

	<u>June 30, 2017</u>		<u>June 30, 2018</u>		<u>June 30, 2019</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%	11.0%	11.5%	11.0%	11.71%
Coordinated	7.5%	7.5%	7.5%	7.5%	7.5%	7.71%

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

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

**Independent School District No. 111
Notes to 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 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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2018
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Mortality 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 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:

Asset Class	Allocations as of June 30, 2018	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	33 %	36 %	5.10 %
International stocks	16	17	5.30
Private markets	25	25	5.90
Fixed income	16	20	0.75
Treasuries	8	0	0.50
Unallocated cash	2	2	0.00
Total	<u>100 %</u>	<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 since the 2017 valuation:

- 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.

Independent School District No. 111
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

- 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.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

On June 30, 2019, the District reported a liability of \$8,193,541 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.1305% at the end of the measurement period and 0.1324% for the beginning of the year.

Independent School District No. 111
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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	\$ 8,193,541
State's proportionate share of the net pension liability associated with the District	770,309

For the year ended June 30, 2019, the District recognized pension expense of \$(3,551,862). It recognized (\$537,626) as a decrease to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 96,954	\$ 167,439
Net difference between projected and actual earnings on plan investments	-	596,932
Changes in assumptions	11,141,194	14,014,605
Changes in proportion	30,930	1,152,901
District's contributions to TRA subsequent to the measurement date	566,917	-
Total	\$ 11,835,995	\$ 15,931,877

\$566,917 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, 2020.

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

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

<u>Year Ended June 30,</u>	<u>Pension Expense</u>
2020	\$ 723,559
2021	424,651
2022	(121,930)
2023	(3,411,523)
2024	<u>(2,277,556)</u>
Total	<u><u>\$ (4,662,799)</u></u>

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.

<u>1% decrease (6.5%)</u>	<u>Current (7.5%)</u>	<u>1% increase (8.5%)</u>
\$ 13,008,005	\$ 8,193,541	\$ 4,227,262

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, 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.

Independent School District No. 111
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

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

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

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.

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% of average salary for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members 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.

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

Independent School District No. 111
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019 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, 2019, were \$206,385. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2019, the District reported a liability of \$2,318,893 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 \$76,115. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the District's proportionate share was 0.0418%, at the end of the measurement period and 0.0427% for the beginning of the period.

School's proportionate share of net pension liability	\$ 2,318,893
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>76,115</u>
Total	<u><u>\$ 2,395,008</u></u>

For the year ended June 30, 2019, the District recognized pension expense of \$13,686 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$17,750 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 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, 2019, 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	\$ 62,640	\$ 69,573
Changes in actuarial assumptions	227,872	264,392
Difference between projected and actual investment earnings	-	231,958
Change in proportion	-	95,437
District's contributions to PERA subsequent to the measurement date	206,385	-
Total	\$ 496,897	\$ 661,360

\$206,385 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, 2020. 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
2020	\$ 28,595
2021	(146,083)
2022	(204,961)
2023	(48,399)
Total	\$ (370,848)

**Independent School District No. 111
Notes to 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, 2017, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

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

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

The following changes in actuarial assumptions occurred in 2018:

Changes in Actuarial Assumptions:

- The morality 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.

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

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36%	5.10 %
International stocks	17%	5.30
Bonds	20%	0.75
Alternative assets	25%	5.90
Cash	2%	0.00
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 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 Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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 Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 3,768,497	\$ 2,318,893	\$ 1,122,285

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 financial statements and required supplementary information. That report may be obtained on the Internet at 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, 2018, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8
Active employees	227
Total	235

**Independent School District No. 111
Notes to 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 2019, the District contributed \$53,198 to the plan.

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, 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	3.50%
Salary Increases	3.00%
Inflation	2.50%
Healthcare cost trend increases	6.5% initially, decreasing over six years to an ultimate rate of 5.0%
Mortality Assumption	RP-2014 mortality tables with MP-2017 Generational Improvement Scale

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2017 – July 1, 2018.

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

The following changes in actuarial assumptions in 2018:

Assumption changes:

- 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 RP-2014 white collar mortality tables with MP-2017 Generational improvement scale.
- The discount rate was changes from 3.40% to 3.50%.

F. Total OPEB Liability

The District's total OPEB liability of \$633,000 was measured as of July 1, 2018, and was determined by an actuarial valuation as of that date.

**Independent School District No. 111
Notes to 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, 2017	<u>\$ 816,378</u>
Changes for the year	
Service cost	40,932
Interest	27,921
Differences between expected and actual economic experience	(179,562)
Changes in assumptions	131
Benefit payments	<u>(72,800)</u>
Net changes	<u>(183,378)</u>
Balances at July 1, 2018	<u><u>\$ 633,000</u></u>

OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.50% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	<u>1% decrease (2.50%)</u>	<u>Current (3.50%)</u>	<u>1% increase (4.50%)</u>
Total OPEB liability (asset)	\$ 669,489	\$ 633,000	\$ 597,719

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.

	<u>1% decrease (5.5% decreasing to 4.0%)</u>	<u>Current (6.5% decreasing to 5.0%)</u>	<u>1% increase (7.5% decreasing to 6.0%)</u>
Total OPEB liability (asset)	\$ 588,583	\$ 633,000	\$ 685,337

**Independent School District No. 111
Notes to 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, 2019, the District recognized OPEB expense of \$38,948. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 149,635
Changes of assumptions	109	-
Subsequent Contributions	53,198	-
Total	\$ 53,307	\$ 149,635

\$53,198 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, 2020.

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
2020	\$ (29,905)
2021	(29,905)
2022	(29,905)
2023	(29,905)
2024	(29,906)
Total	\$ (149,526)

Independent School District No. 111
Notes to Financial Statements

NOTE 8 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending June 30, 2020.

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, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 111
Schedule of Changes in Total OPEB Liability
and Related Ratios

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability		
Service cost	\$ 40,932	\$ 50,247
Interest	27,921	27,764
Differenced between expected and actual experience	(179,562)	-
Changes of assumptions	131	-
Benefit payments	<u>(72,800)</u>	<u>(55,459)</u>
Net change in total OPEB liability	<u>(183,378)</u>	<u>22,552</u>
Beginning of year	<u>816,378</u>	<u>793,826</u>
End of year	<u>\$ 633,000</u>	<u>\$ 816,378</u>
Covered payroll	\$ 9,553,999	\$ 9,535,899
Total OPEB liability as a percentage of covered-employee payroll	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
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%	78.7%
2015	0.0461%	2,389,141	-	2,389,141	2,662,267	89.74%	78.2%
2016	0.0430%	3,491,387	45,639	3,537,026	2,667,667	130.88%	68.9%
2017	0.0427%	2,725,940	34,243	2,760,183	2,748,173	99.19%	75.9%
2018	0.0418%	2,318,893	76,115	2,395,008	2,811,973	82.46%	79.5%

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%	76.80%
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%	51.60%
2018	0.1305%	8,193,541	770,309	8,963,850	7,207,280	113.7%	78.07%

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

**Independent School District No. 111
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	206,385	206,385	-	2,751,800	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	566,917	566,917	-	7,353,009	7.71%

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

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was increased from 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.
- 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.

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

TRA Retirement Fund (Continued)

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.

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

2018 Changes

Changes in Actuarial Assumptions:

- The morality 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.

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.

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.

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

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, Minnesota
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2019**

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and investments	\$ 134,664	\$ 541,546	\$ 676,210
Current property taxes receivable	-	170,540	170,540
Delinquent property taxes receivable	-	6,479	6,479
Accounts receivable	-	10,672	10,672
Due from Department of Education	-	14,201	14,201
Due from other Minnesota school districts	-	117	117
Inventory	21,080	-	21,080
	<u>21,080</u>	<u>-</u>	<u>21,080</u>
Total assets	<u>\$ 155,744</u>	<u>\$ 743,555</u>	<u>\$ 899,299</u>
Liabilities			
Accounts payable	\$ 34,369	\$ 26,677	\$ 61,046
Salaries and benefits payable	-	50,514	50,514
Unearned revenue	20,903	-	20,903
Total liabilities	<u>55,272</u>	<u>77,191</u>	<u>132,463</u>
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	306,881	306,881
Unavailable revenue - delinquent property taxes	-	5,007	5,007
Total deferred inflows of resources	<u>-</u>	<u>311,888</u>	<u>311,888</u>
Fund Balances			
Nonspendable	21,080	-	21,080
Restricted	79,392	354,476	433,868
Total fund balances	<u>100,472</u>	<u>354,476</u>	<u>454,948</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 155,744</u>	<u>\$ 743,555</u>	<u>\$ 899,299</u>

**Independent School District No. 111
Watertown, Minnesota
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2019**

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenues			
Local property taxes	\$ -	\$ 299,720	\$ 299,720
Other local and county revenues	-	1,031,073	1,031,073
Revenue from state sources	32,802	289,567	322,369
Revenue from federal sources	230,164	1,386	231,550
Sales and other conversion of assets	441,369	-	441,369
Total revenues	<u>704,335</u>	<u>1,621,746</u>	<u>2,326,081</u>
Expenditures			
Current			
Pupil support services	-	82,008	82,008
Food service	660,823	-	660,823
Community education and services	-	1,393,812	1,393,812
Capital outlay			
Food service	2,299	-	2,299
Community education and services	-	15,494	15,494
Total expenditures	<u>663,122</u>	<u>1,491,314</u>	<u>2,154,436</u>
Net change in fund balances	41,213	130,432	171,645
Fund Balances			
Beginning of year	<u>59,259</u>	<u>224,044</u>	<u>283,303</u>
End of year	<u>\$ 100,472</u>	<u>\$ 354,476</u>	<u>\$ 454,948</u>

Independent School District No. 111
Uniform Financial Accounting And Reporting Standards
Compliance Table
Year Ended June 30, 2019

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 17,338,226	\$ 17,338,225	\$ 1	Total revenue	\$ -	\$ -	\$ -
Total expenditures	16,656,496	16,656,494	2	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	94,213	94,213	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	1,220	1,220	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	-	-	-	409 Alternative Facility Program	-	-	-
407 Capital Projects Levy	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
413 Building Projects Funded by COP/LP	-	-	-	464 Restricted fund balance	-	-	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned fund balance	-	-	-
417 Taconite Building Maintenance	-	-	-	07 Debt Service Fund			
424 Operating Capital	2,586	2,586	-	Total revenue	\$ 4,728,830	\$ 4,728,830	\$ -
426 \$25 Taconite	-	-	-	Total expenditures	4,597,863	4,597,863	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable fund balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond refundings	-	-	-
436 State Approved Alternative Program	2,737	2,737	-	433 Maximum effort loan aid	-	-	-
438 Gifted and Talented	-	-	-	451 QZAB payments	-	-	-
440 Teacher Development and Evaluation	-	-	-	467 Long-term Facilities Maintenance	30	30	-
441 Basic Skills Programs	-	-	-	<i>Restricted:</i>			
445 Career Technical Programs	-	-	-	464 Restricted fund balance	945,747	945,746	1
448 Achievement and Integration	-	-	-	<i>Unassigned:</i>			
449 Safe School Crime	-	-	-	463 Unassigned fund balance	-	-	-
450 Transition for Pre-Kindergarten	-	-	-	08 Trust Fund			
451 QZAB Payments	-	-	-	Total revenue	\$ 2,294	\$ 2,294	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total expenditures	38,347	38,346	1
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
459 Basic Skills Extended Time	-	-	-	422 Net position	58,044	58,045	(1)
467 Long-term Facilities Maintenance	451,937	451,937	-	20 Internal Service Fund			
472 Medical Assistance	191,556	191,556	-	Total revenue	\$ -	\$ -	\$ -
475 Title VII - Impact Aid	-	-	-	Total expenditures	-	-	-
476 Payments in Lieu of Taxes	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Net position	-	-	-
464 Restricted fund balance	-	-	-	25 OPEB Revocable Trust			
<i>Committed:</i>				Total revenue	\$ -	\$ -	\$ -
418 Committed for separation	-	-	-	Total expenditures	-	-	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				422 Net position	-	-	-
462 Assigned fund balance	75,101	75,101	-	45 OPEB Irrevocable Trust			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
422 Unassigned fund balance	2,499,590	2,499,589	1	Total expenditures	-	-	-
02 Food Services Fund				<i>Unassigned:</i>			
Total revenue	\$ 704,335	\$ 704,333	\$ 2	422 Net position	-	-	-
Total expenditures	663,122	663,120	2	47 OPEB Debt Service			
<i>Nonspendable:</i>				Total revenue	\$ -	\$ -	\$ -
460 Nonspendable fund balance	21,080	21,080	-	Total expenditures	-	-	-
<i>Restricted/reserved:</i>				<i>Nonspendable:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	460 Nonspendable fund balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
464 Restricted fund balance	79,392	79,393	(1)	425 Bond refundings	-	-	-
<i>Unassigned:</i>				464 Restricted fund balance	-	-	-
463 Unassigned fund balance	-	-	-	<i>Unassigned:</i>			
04 Community Service Fund				463 Unassigned fund balance	-	-	-
Total revenue	\$ 1,621,746	\$ 1,621,743	\$ 3				
Total expenditures	1,491,314	1,491,311	3				
<i>Nonspendable:</i>							
460 Nonspendable fund balance	-	-	-				
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	288,934	288,934	-				
432 ECFE	33,948	33,946	2				
440 Teacher Development and Evaluation	-	-	-				
444 School Readiness	16,578	16,578	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	15,016	15,015	1				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

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

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 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, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 21, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control that we consider to be a significant deficiency as audit finding 2019-001.

Compliance and Other Matters

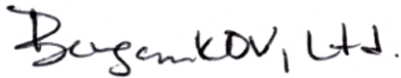
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

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 Corrective Action Plans on Legal Compliance and Internal Control. The District's response was not subjected to the auditing procedures applied in the audit of the 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 21, 2019

Minnesota Legal Compliance**Independent Auditor's Report**

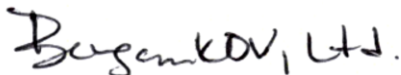
To the School Board
Independent School District No. 111
Watertown-Mayer Schools
Watertown, Minnesota

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 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, 2019, and the related notes to financial statements, and have issued our report thereon dated October 21, 2019.

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

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

The purpose of this report is 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 21, 2019

**Independent School District No. 111
Schedule of Findings and Corrective Action Plans
on Legal Compliance and Internal Control**

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Significant Deficiency:

2019-001: Lack of Segregation of Accounting Duties

The District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Segregation of accounting duties relates to four key processes: initiation, authorization, recording, and reconciliation of financial data. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list.

- The Finance Officer prepares and records journal entries.
- The Food Service Clerk handles cash receipts and prepares the deposit.
- The Community Service Director handles cash receipts and prepares the deposit.

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

**Independent School District No. 111
Schedule of Findings and Corrective Action Plans
on Legal Compliance and Internal Control**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

OPEN MEETING LAW

Minnesota Statutes 13D.05 states that all closed meetings, except those closed as permitted by the attorney-client privilege, must be electronically recorded at the expense of the District.

The March 18, 2019, closed meeting was not recorded.

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 ensure all closed meetings are recorded.
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 June 30, 2020.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.