

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

Communications Letter

June 30, 2018



**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, 2018, 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.

The District's written response to the significant deficiency identified in our audit has not been subjected to audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it/them.

The 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 30, 2018, 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.

A handwritten signature in black ink that reads 'BergankDV, Ltd.'.

St. Cloud, Minnesota
October 30, 2018

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, 2018. 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.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

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.

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

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

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

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 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimate 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.

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

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

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.

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

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

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

In addition, 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 the audit.

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

REPRESENTATIONS REQUESTED FROM MANAGEMENT

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

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 auditors.

OTHER MATTERS

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>
2009	\$ 5,124	1.0%
2010	5,124	0.0%
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%

* 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.

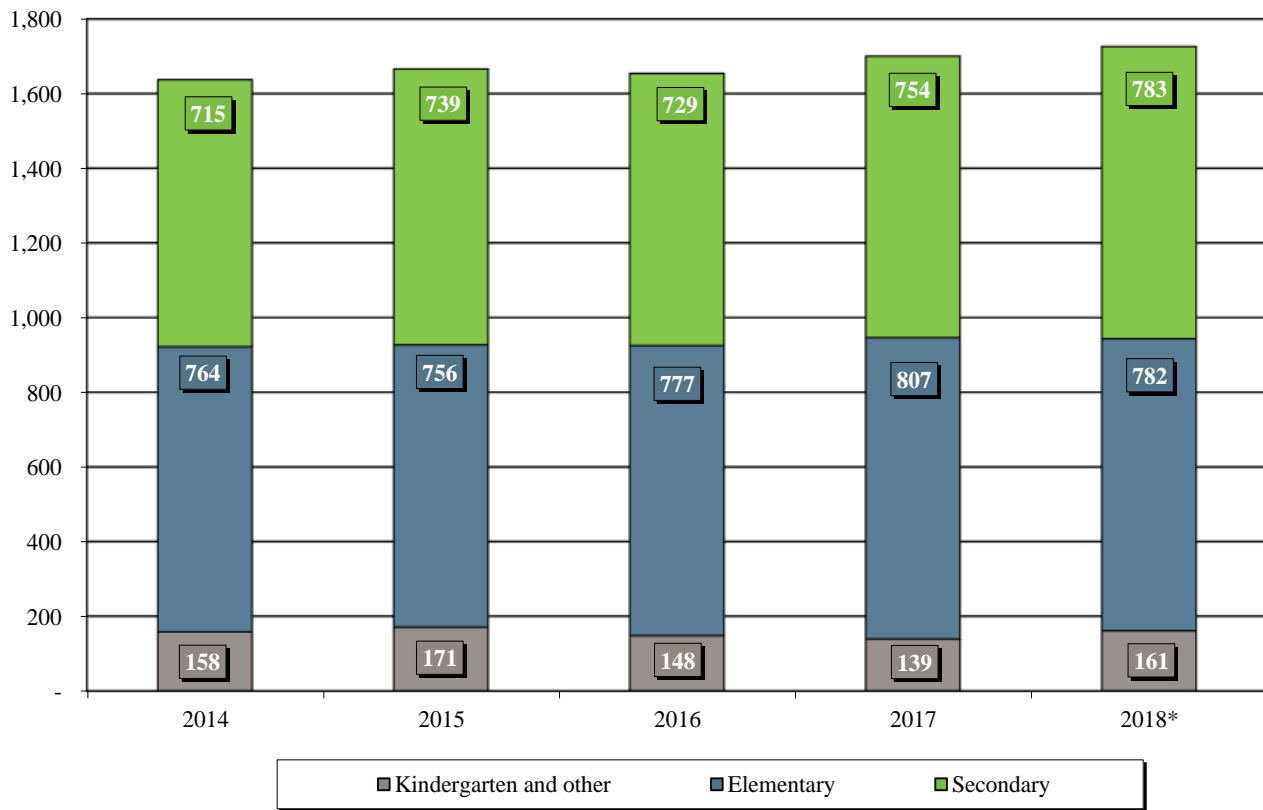
**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

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	2014	2015	2016	2017	2018*
Kindergarten and other	158	171	148	139	161
Elementary	764	756	777	807	782
Secondary	715	739	729	754	783
Total	1,637	1,666	1,654	1,700	1,726

Student (Average Daily Membership)



* Estimate

Resident ADM has increased 5.4%, or 89 students, over the last five years. Also, Resident ADM increased 1.5%, or 26 students, from 2017 and 2018.

**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
2014	1.250	1.000	0.612	1.115	1.060	1.300
2015-2018	1.000	1.000	1.000	1.000	1.000	1.200

Resident ADM is converted to weighted average daily membership (WADM) served below for the same five years:

PUN Served	2014	2015	2016	2017	2018*
Residents	1,880	1,814	1,800	1,850	1,883
Resident WADM/PUN going elsewhere	(346)	(357)	(379)	(416)	(453)
Total residents served	1,534	1,457	1,421	1,434	1,430
Total nonresidents	267	264	287	308	293
Total PUN served	1,801	1,721	1,708	1,742	1,723

* Estimate

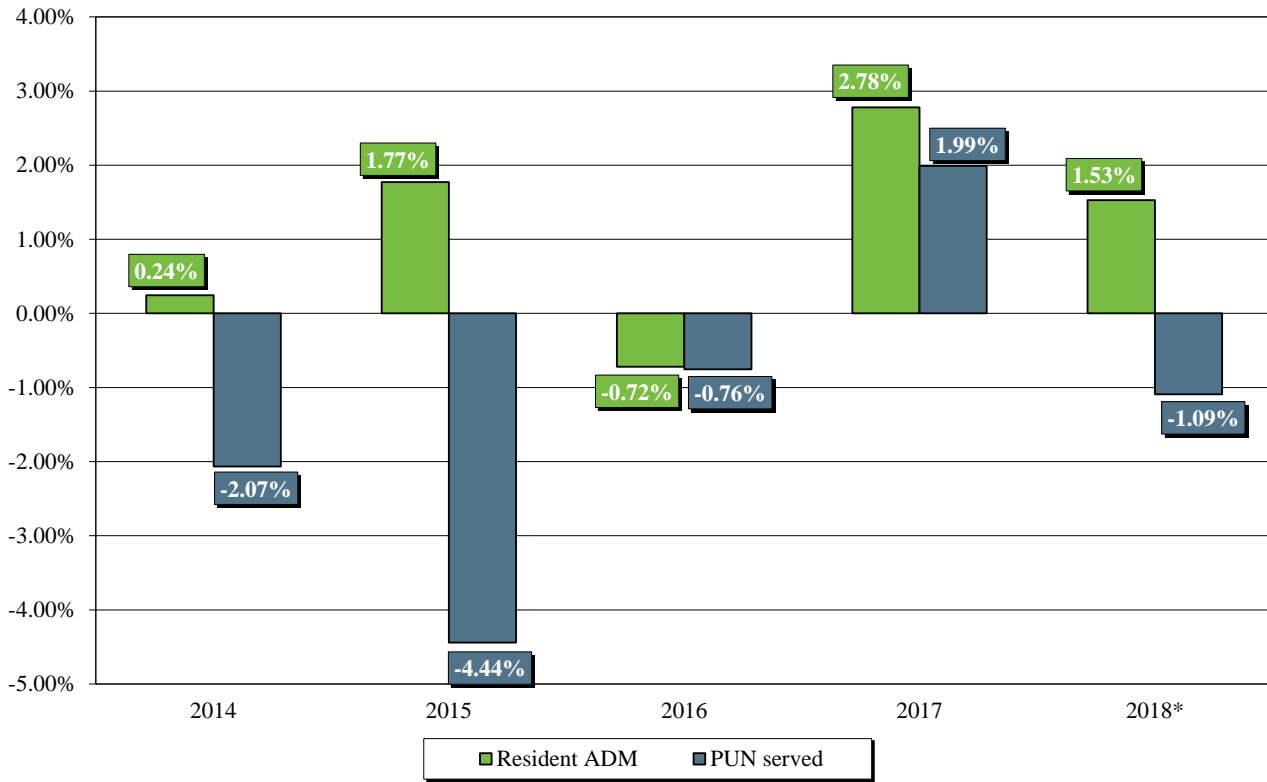
For 2015, the Minnesota Department of Education (MDE) simplified the weighting factors for converting ADM to weighed amounts on which the basic formula portion of general education aid is based. The weighed amounts are now titled pupil unit numbers (PUN) and were previously referred to as weighted average daily membership (WADM). As mentioned on page 8, because of the simplified weighting changes, districts' weighted pupil counts across the state decreased, so MDE increased the basic formula allowance dollar amount in an effort to hold districts harmless. We see a decrease in the 2015 PUN to 1,721 in the chart above as a result of this change. If weighting factors had not changed, the District would have shown an increase to 1,816 PUN. For 2018, PUN decreased 19 to 1,723.

**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 pupil units served.

Change in Resident ADM and WADM/PUN Served



* Estimate

See discussion on previous page on change in weighting factors for 2015.

**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	2014	2015	2016	2017	2018*
Property taxes	\$ 483	\$ 762	\$ 845	\$ 919	\$ 1,051
State aid	8,245	8,335	8,454	8,372	8,708
Other	930	778	723	792	817
Total General Fund Revenue	\$ 9,658	\$ 9,875	\$ 10,022	\$ 10,083	\$ 10,576
Districts with 1,000-1,999 ADM**					
Property taxes	\$ 530	\$ 865	\$ 934	\$ 1,028	N/A
State aid	8,648	8,823	9,108	9,363	N/A
Other local sources	1,081	1,182	1,166	1,079	N/A
Total General Fund Revenue	\$ 10,259	\$ 10,869	\$ 11,208	\$ 11,470	N/A
State-Wide**					
Property taxes	\$ 923	\$ 1,564	\$ 1,673	\$ 1,815	N/A
State aid	9,136	9,114	9,435	9,577	N/A
Other local sources	941	936	940	972	N/A
Total General Fund Revenue	\$ 11,000	\$ 11,614	\$ 12,048	\$ 12,364	N/A

Revenues per student for the General Fund increased 4.9% from 2017 to 2018 as students served decreased 1.0% and revenues increased 3.5%

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

ISD No. 111	2014	2015	2016	2017	2018*
General Fund	\$ 9,749	\$ 9,919	\$ 9,912	\$ 9,787	\$ 10,108
General and special revenue	11,017	11,161	11,159	11,103	11,449
Districts with Enrollment of 1,000-1,999**					
General Fund	\$ 10,231	\$ 10,665	\$ 10,908	\$ 11,169	N/A
General and special revenue	11,144	11,613	11,889	12,177	N/A
State Averages**					
General Fund	\$ 11,011	\$ 11,527	\$ 11,895	\$ 12,249	N/A
General and special revenue	12,055	12,573	13,014	13,374	N/A

* Estimate

** State average expenditures per ADM served for the 1,000 to 1,999 group for 2014-2017 as listed in the MDE publication *School District Profiles*. The 2018 information is not yet available.

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

REVENUES AND EXPENDITURES PER ADM SERVED (CONTINUED)

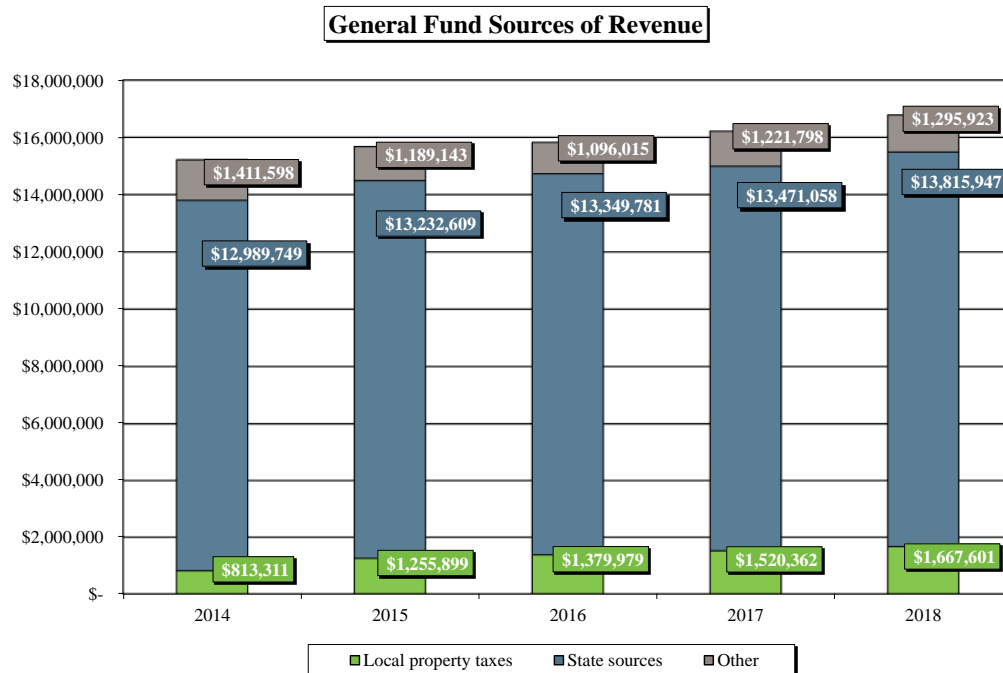
Expenditures per student served for the General Fund increased 3.3% from 2017 to 2018 as students served decreased 1.0% and expenditures increased 1.9%.

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:

	2014	2015	2016	2017	2018
Local property taxes	\$ 813,311	\$ 1,255,899	\$ 1,379,979	\$ 1,520,362	\$ 1,667,601
State sources	12,989,749	13,232,609	13,349,781	13,471,058	13,815,947
Other	1,411,598	1,189,143	1,096,015	1,221,798	1,295,923
Total	\$ 15,214,658	\$ 15,677,651	\$ 15,825,775	\$ 16,213,218	\$ 16,779,471



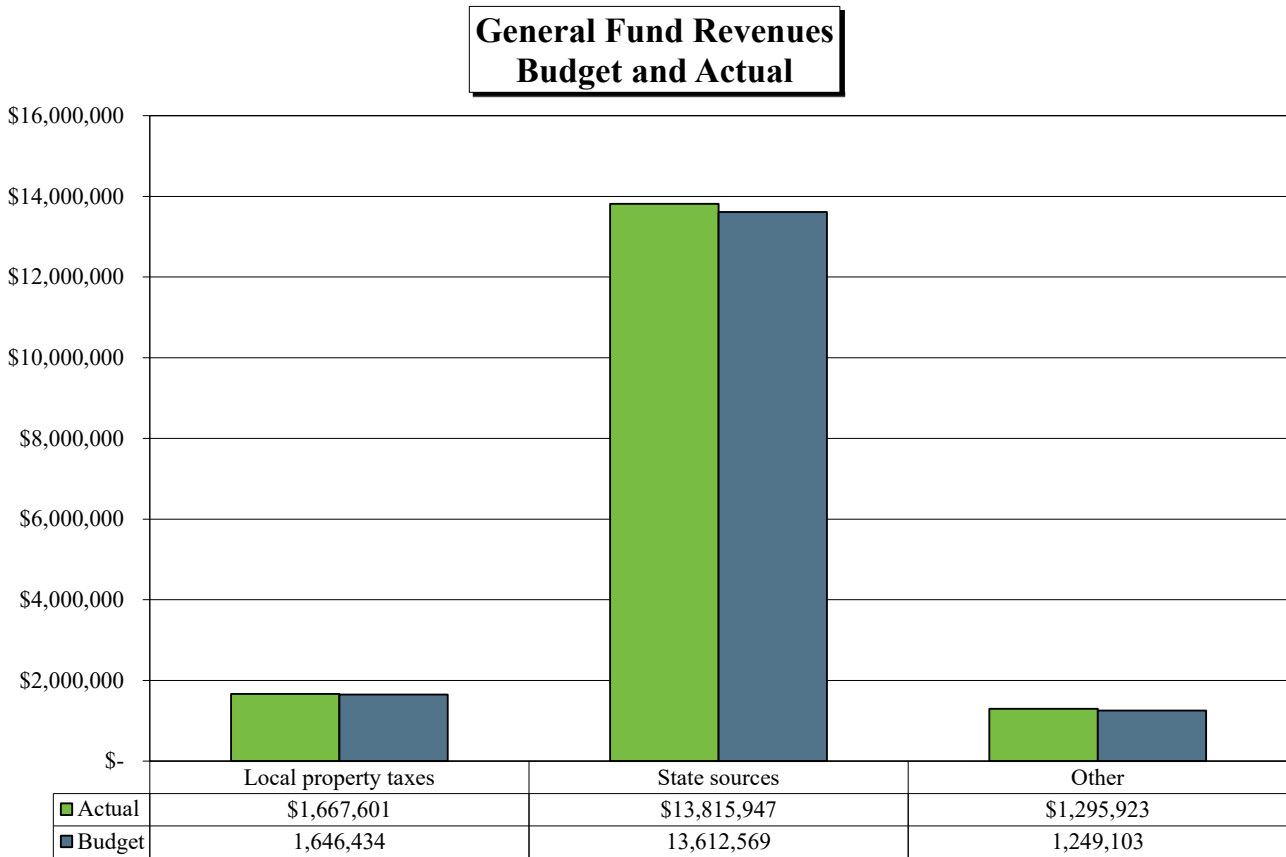
Total revenue increased \$566,253, or 3.5%, from 2017 to 2018. The most significant portion of the District's funding came from the state in the form of general education revenue. As previously explained, this funding is determined based on student enrollment. Revenue from state sources increased \$344,889 due in part to an increase in the formula allowance and an increase in the special education entitlement. Revenue from local property taxes increased \$147,239 due in part to an increase in the long-term facilities maintenance levy. Other Revenues increased \$74,125 due in part to increased entitlement for Title I and federal special education.

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

GENERAL FUND BUDGETED AND ACTUAL REVENUES

The graph below outlines the District's final budget and actual results for General Fund revenues.

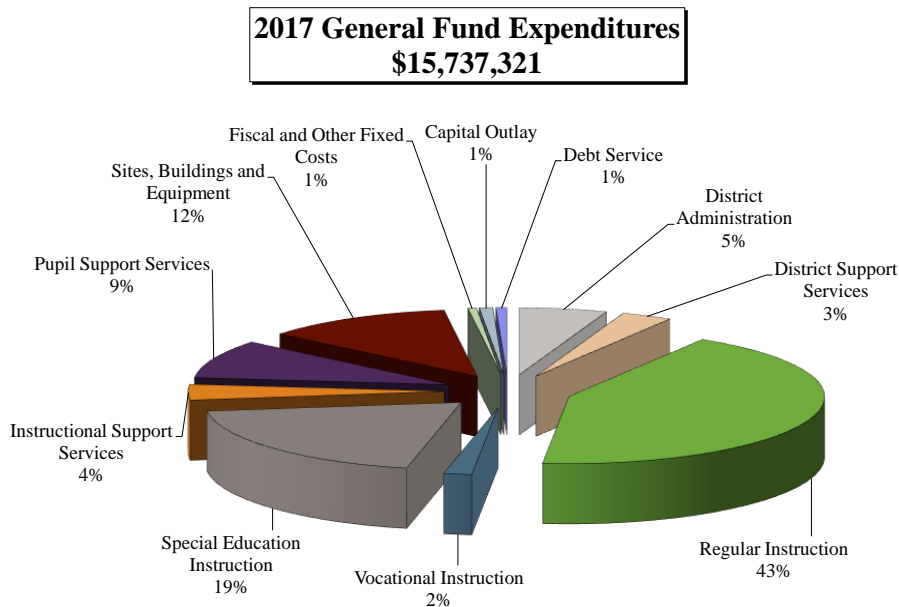
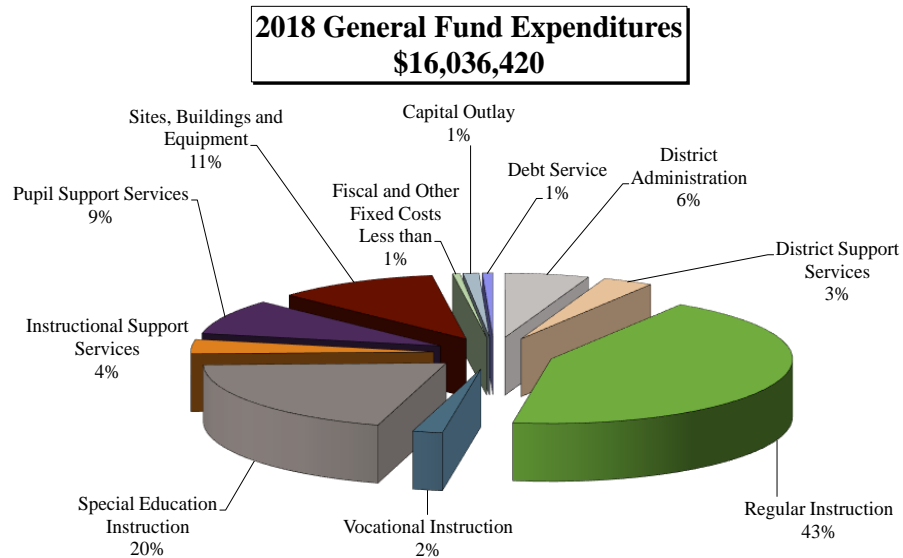
The District set a final revenue budget of \$16,508,106. Actual revenues of \$16,779,471 were over the final budget by \$271,365, or 1.6%.



State sources had the largest variance from budgeted amounts, coming in \$203,378, or 1.5%, over budget. This is primarily due to conservative budgeting related to special education.

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

GENERAL FUND EXPENDITURES



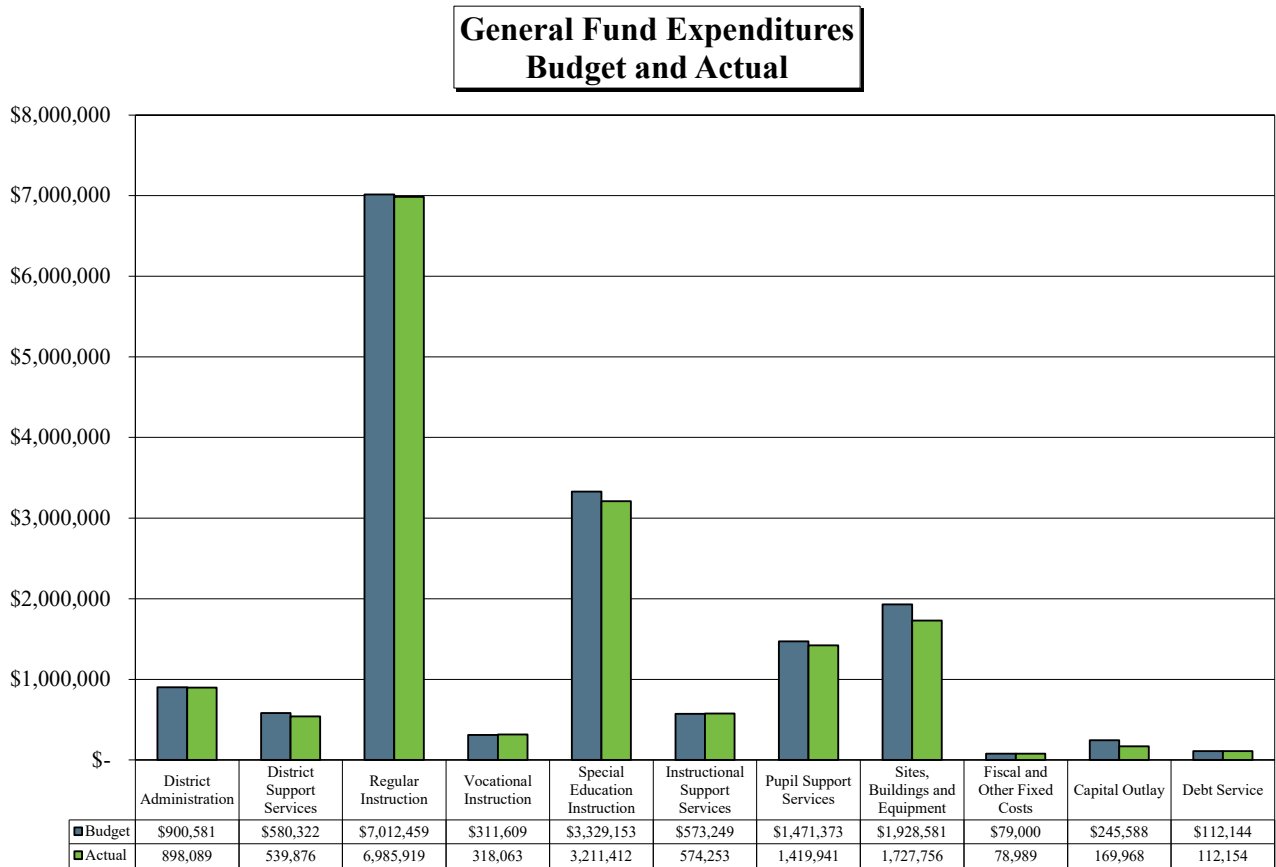
Expenditures in the General Fund for 2018 increased \$298,599, or 1.9%, from 2017. The most significant increases were \$235,281 in regular instruction and \$140,411 in special education instruction. The increases are due to COLA salary increase and lane changes. Regular education did have an addition of an elementary teacher. The most significant decrease was \$153,027 in sites and buildings. This decrease reflects staffing reorganizations. All other programs remained consistent with the prior year.

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

GENERAL FUND BUDGETED AND ACTUAL EXPENDITURES

The graph below presents final budget and actual for General Fund expenditures by program.

General Fund actual spending of \$16,036,420 was under the final budget of \$16,544,059 by \$507,639, or 3.1%.



The largest variance was in sites and buildings expenditures, which was under the budgeted amount by \$200,825. This variance is due to a budget to fix the geothermal system that was not completed in FY18. All other programs remained fairly consistent with the budget.

**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,	2014	2015	2016	2017	2018
Revenues	\$ 15,214,658	\$ 15,677,651	\$ 15,825,775	\$ 16,213,218	\$ 16,779,471
Expenditures	15,359,306	15,746,828	15,652,639	15,737,821	16,036,420
Excess of revenues over (under) expenditures	(144,648)	(69,177)	173,136	475,397	743,051
Plus (minus) other sources (uses)	(919,788)	350	135	-	8,775
Fund balance, July 1	2,354,011	1,289,575	1,220,748	1,394,019	1,869,416
Fund Balance, June 30	\$ 1,289,575	\$ 1,220,748	\$ 1,394,019	\$ 1,869,416	\$ 2,621,242

Components of Fund Balance	2014	2015	2016	2017	2018
Nonspendable	\$ 92,578	\$ 87,038	\$ 87,855	\$ 84,496	\$ 90,546
Restricted/reserved for*					
Staff development	2,618	1,735	1,735	1,220	1,220
Deferred maintenance	2	2	2	-	-
Health and safety	(115,494)	-	-	-	-
Learning and development	1,104	-	-	-	-
Operating capital	90,490	11,598	5,317	-	-
Long term facilities maintenance	-	-	-	21,831	268,236
Medical Assistance	-	-	-	128,433	218,717
Safe schools crime levy	3,126	-	-	-	-
Assigned	111,491	45,295	11,503	2,251	1,345
Unassigned	1,103,660	1,075,080	1,287,607	1,631,185	2,041,178
Fund Balance, June 30	\$ 1,289,575	\$ 1,220,748	\$ 1,394,019	\$ 1,869,416	\$ 2,621,242

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

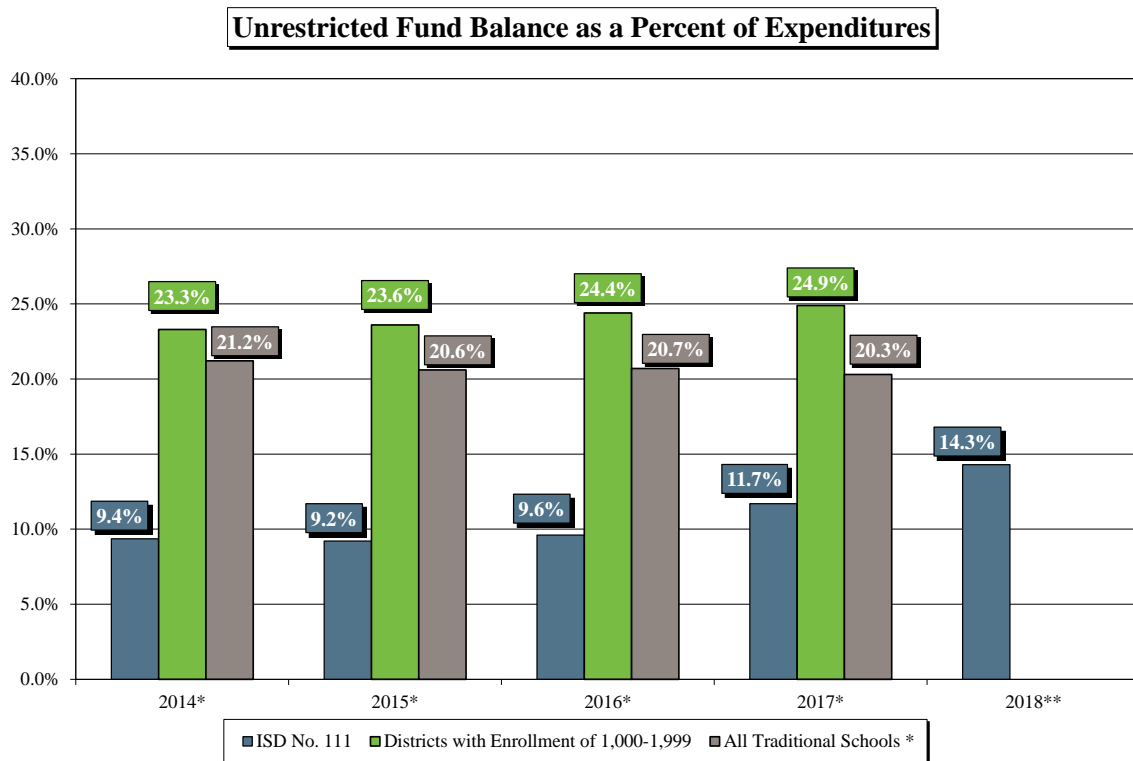
In 2018, the District's revenues increased \$566,253 and expenditures increased \$298,599 as discussed earlier. The General Fund balance increased \$751,826 as a result of current year activity.

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 budget for each year. The unassigned fund balance of \$2,041,178 at June 30, 2018, represents 12.3% of current year budget.

**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*; 2018 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,	2014	2015	2016	2017	2018
Revenues	\$ 781,290	\$ 784,901	\$ 788,812	\$ 785,321	\$ 725,282
Expenditures	779,964	762,915	769,827	777,229	727,739
Excess of revenues over (under) expenditures	1,326	21,986	18,985	8,092	(2,457)
Fund balance, July 1	11,327	12,653	34,639	53,624	61,716
Fund Balance, June 30	\$ 12,653	\$ 34,639	\$ 53,624	\$ 61,716	\$ 59,259

In 2018, expenditures exceeded revenues, resulting in a decrease in fund balance of \$2,457. 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,	2014	2015	2016	2017	2018
Revenues and transfers in	\$ 1,182,253	\$ 1,241,220	\$ 1,268,511	\$ 1,379,619	\$ 1,446,165
Expenditures	1,218,344	1,208,190	1,198,741	1,331,973	1,399,726
Excess of revenues over (under) expenditures	(36,091)	33,030	69,770	47,646	46,439
Fund balance, July 1	63,250	27,159	60,189	129,959	177,605
Fund Balance, June 30	\$ 27,159	\$ 60,189	\$ 129,959	\$ 177,605	\$ 224,044

In 2018, revenues increased by \$66,546 primarily due to an increase in programming, as well as an increase in the levy. Expenditures increased by \$67,753 due to additional staffing needs related to the increased programming, as well as increased costs related to additional bussing for Young Royals. At June 30, 2018, all components of fund balance within the Community Service Fund were positive.

**Independent School District No. 111
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 2018 General Education Aid was increased \$121 (2%) to \$6,188. For 2019, the formula allowance is set at \$6,312, which is also an increase of 2%.

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. These percentages are 3.5% for 2019 and for 2020 and later it will be 3.5% plus the percentage change in the formula from 2019.

STUDENT ACHIEVEMENT LEVY

The Student Achievement Levy eliminated for 2019.

LEAD IN SCHOOL DRINKING WATER

By July 1, 2018, districts will be required to begin testing school water for lead. Testing must be completed for all schools within five years. School districts and charter schools must adopt a plan to test school water for lead at least every five years. Lead test results must be made available to the public and parents must be notified when this information is available.

The testing may be included in the ten year facilities plans and districts can use long-term facilities maintenance revenue for lead testing and remediation costs.

PAYMENTS TO NONOPERATING FUNDS

The payment schedule for nonoperating fund aids is moving to six monthly installments from July through December rather than 12 monthly installments.

SCHOOL BUILDING BOND AGRICULTURAL CREDIT

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. Total amounts available state-wide will be \$34.8 million in 2019, \$45.2 million in 2020, and \$52.5 million in 2021.

**Independent School District No. 111
Legislative Summary**

LONG-TERM FACILITIES MAINTENANCE REVENUE

The per pupil revenue increases from \$193/APU to \$292 for 2018 and \$380 for 2019 and later. Equalized revenue is limited to \$292 for 2018 and \$380 for 2019 and later. LTFM revenue may be used for remodeling and new construction for school security enhancements, and equipment and facility modifications related to violence prevention and facility security for projects in the LTFM plan approved in 2019 or 2020.

EQUITY REVENUE

Starting in 2017 through 2019, nonmetro school district are eligible for a 16% increase in the sliding portion of their equity revenue. The seven county metro area schools continue to receive a 25% increase over their initial calculation for revenue.

Beginning in 2020, all districts will receive the same 25% increase over the initial calculation for revenue.

SPECIAL EDUCATION

An adjustment to the prior year data and the fiscal year 2016 old formula revenue base used to calculate the hold harmless and growth cap will be necessary for closed or restructured programs.

Although there was a change in Federal law removing student awaiting foster care from the definition of "homeless", these students will still be included in the special education funding calculations.

VOLUNTARY PREKINDERGARTEN (VPK)/SCHOOL READINESS PLUS

This program changes the VPK cap from a limit on the total state aid entitlement to a limit on the number of participants. The cap for VPK and school readiness plus will be 7,160 for 2019. The new school readiness plus program continues for 2019. After 2019 the school readiness plus will be eliminated and the cap for VPK will be 3,160 participants.

EMERGENCY SCHOOL FUNDING

One-time additional school aid was approved effective for 2019 only. The aid equals \$57.73 per 2018 adjusted ADM for school districts and charter schools (\$50 million total). The aid will be paid out with the school endowment fund payment in September 2018. Aid may be used for student and staff safety or any other school-related purpose as deemed appropriate by the school board.

STAFF DEVELOPMENT SET-ASIDE WAIVER

For 2019 only, school boards may waive the 2% staff development set aside requirement or establish a different percentage reserve by board resolution without a majority vote by the licensed teachers in the District.

**Independent School District No. 111
Legislative Summary**

COMMUNITY SERVICE FUND TRANSFER

For 2019, Districts may permanently transfer any amount approved by the Commissioner from the restricted/reserved for community education fund balance to its undesignated fund balance.

SAFE SCHOOLS REVENUE

Revenue is increased from \$36 to \$54/PU for 2019 and to \$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.

Q COMP

The cap on basic Q Comp aid remains at \$88,118,000 but allows the commissioner to prorate aid for existing districts and schools. Due to enrollment growth, proration is projected to be 98.8%. Districts will be able to levy for the projected basic aid shortfall.

SCHOOL SAFETY GRANTS

The house and senate approved \$25 million in total grants to be funded from the State General Fund in 2019. Grants will be awarded by MDE on a first-come, first-serve basis, in consultation with the Department of Public Safety's Minnesota School Safety Center. Grants maybe used to predesign, design, construct, furnish and equip school facilities including renovating and expanding existing buildings and facilities. Grant awards are limited to \$500,000 for each qualifying school building. At least half of the grants must be awarded to school districts outside the 11 county metro area.

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 5 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 FY 2019 to FY 2023 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
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
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
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, 2018



**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, 2018**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Jennifer Janikula	Chair	December 31, 2018
Julie Sweeney	Vice Chair	December 31, 2018
Kelly Thaemert	Clerk	December 31, 2020
Stacy Unowsky	Treasurer	December 31, 2020
Jeffrey Jackson	Director	December 31, 2020
Tim Thompson	Director	December 31, 2020
Open	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, 2018, 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, 2018, 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.

Implementation of GASB 75

As discussed in Note 8 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

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 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.



Other Matters (Continued)

Other Information (Continued)

The accompanying supplementary information identified in the Table of Contents and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, 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.

A handwritten signature in black ink that reads "BergankDV, Ltd." in a cursive, slightly stylized font.

St. Cloud, Minnesota
October 30, 2018

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, 2018. 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 2017 – 2018 is that the District's total fund balance increased by \$838,553.

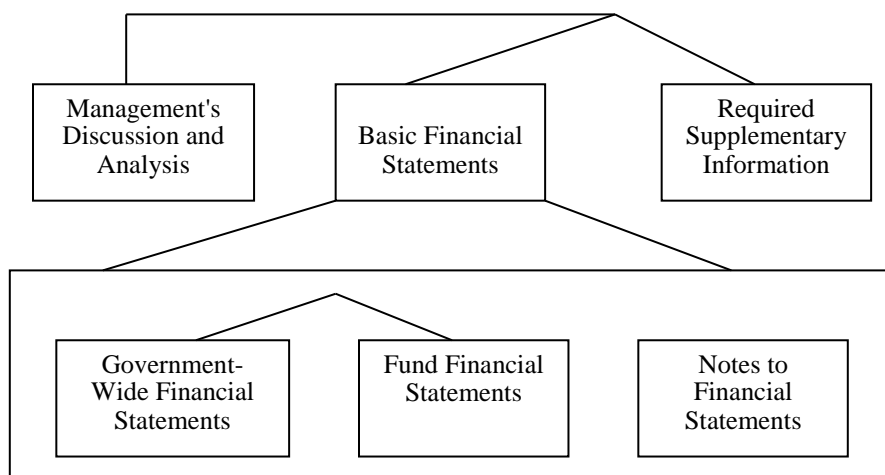
OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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, 2018, was -\$720,544 (see details in Table A-1 below). This is a decrease of \$1,347,356 from June 30, 2017. The decrease was due to the District's annual pension expense and the implementation of GASB75.

Table A-1

	<u>30-Jun-18</u>	<u>30-Jun-17</u>	<u>Total % Change</u>
Current and Other Assets	\$12,279,442	\$10,903,557	12.62%
Capital Assets	52,347,404	53,780,921	-2.67%
Total Assets	<u>64,626,846</u>	<u>64,684,478</u>	-0.09%
Deferred Outflows of Resources	<u>16,547,553</u>	<u>22,306,422</u>	-25.82%
Total Assets and Deferred Outflows of Resources	<u>\$81,174,399</u>	<u>\$86,990,900</u>	-6.69%
Long-Term Liabilities	\$67,121,172	\$77,417,142	-13.30%
Current Liabilities	<u>2,012,609</u>	<u>1,976,525</u>	1.83%
Total Liabilities	<u>69,133,781</u>	<u>79,393,667</u>	-12.92%
Deferred Inflow of Resources	<u>12,761,162</u>	<u>6,970,421</u>	83.08%
Net Position			
Net Investment in Capital Assets	15,395,814	12,805,943	20.22%
Restricted	1,229,337	774,940	58.64%
Unrestricted	<u>-17,345,695</u>	<u>-12,954,071</u>	-33.90%
Total Net Position	<u>-720,544</u>	<u>626,812</u>	-214.95%
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$81,174,399</u>	<u>\$86,990,900</u>	-6.69%

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

A summary of the District's revenues and expenses are presented in Table A-2 below:

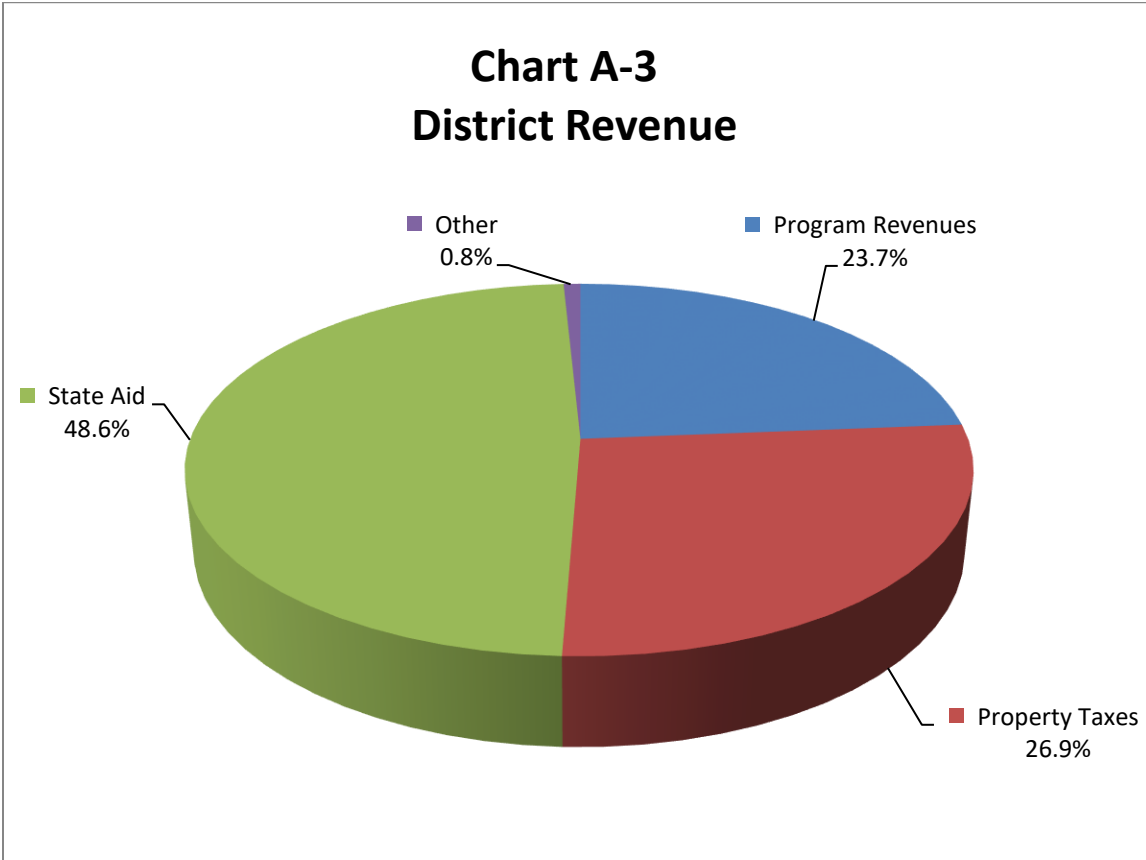
Table A-2

Revenues	<u>2017-2018</u>	<u>2016-2017</u>	<u>Total % Change</u>
Program revenues			
Charges for services	\$ 1,692,175	\$ 1,596,588	5.99%
Operating grants and contributions	3,572,834	3,623,763	-1.41%
Capital grants and contributions	368,149	260,657	41.24%
General revenues			
Property taxes	6,385,415	6,229,917	2.50%
Aids and payments from state and other	11,529,734	11,782,729	-2.15%
Other sources	191,061	145,450	31.36%
Total revenues	<u>23,739,368</u>	<u>23,639,104</u>	<u>0.42%</u>
 Expenses			
Administration	1,153,009	1,184,040	-2.62%
District support services	587,885	592,549	-0.79%
Elementary and secondary regular instruction	9,393,715	9,594,483	-2.09%
Vocational instruction	443,758	409,140	8.46%
Special education instruction	4,063,903	4,097,767	-0.83%
Instructional support services	710,787	802,957	-11.48%
Pupil support services	1,586,626	1,671,862	-5.10%
Site, buildings and equipment	3,277,079	3,451,029	-5.04%
Fiscal and other fixed cost programs	78,989	84,676	-6.72%
Food service	739,934	799,324	-7.43%
Community education and services	1,449,362	1,453,663	-0.30%
Interest and fiscal charges on long-term debt	804,173	1,096,663	-26.67%
Total expenses	<u>24,289,220</u>	<u>25,238,153</u>	<u>-3.76%</u>
 Change in net position	(549,852)	(1,599,049)	65.61%
Net position – beginning	626,812	2,225,861	-71.84%
Change in accounting principle	(797,504)	-	-100.0%
 Net position – ending	<u>\$ (720,544)</u>	<u>\$ 626,812</u>	<u>-214.9%</u>

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

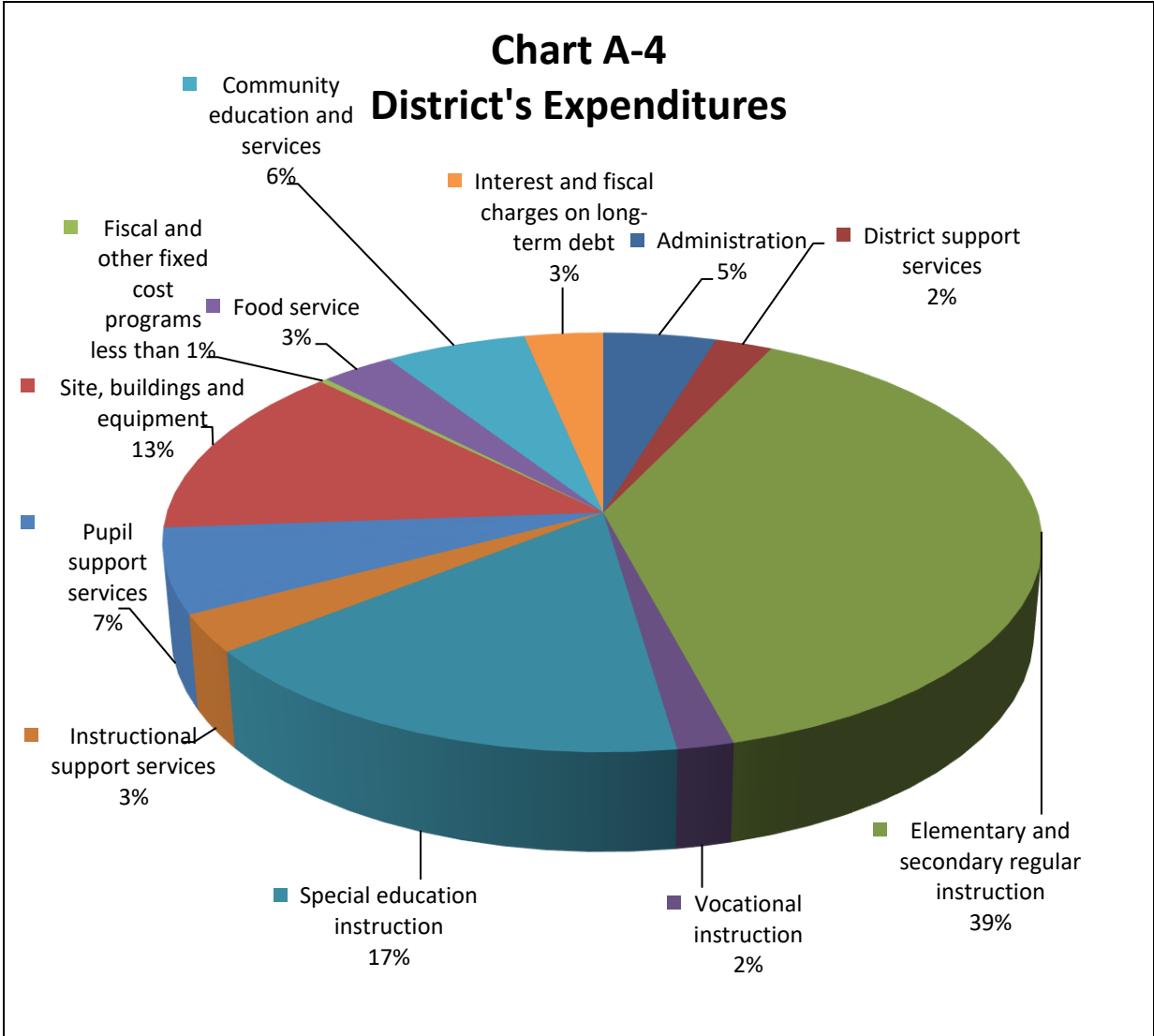
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The District's total revenue consisted of program revenues of \$5,633,158, property taxes of \$6,385,415, aid payments from the state and other of \$11,529,734 and \$191,061 from miscellaneous other sources. Expenses totaling \$24,289,220 consisted mainly of regular, vocational, special education instruction, instructional support and pupil support cost of \$16,198,789. Other areas of cost included: support services (District and administrative) totaling \$1,740,894, sites, building and equipment \$3,277,079, fiscal and other fixed cost of \$78,989, food services activities \$739,934, Community Education activities of \$1,449,362 and interest and other fiscal changes on long-term, debt of \$804,173.



**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 \$566,253 or about 3.49% 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 2017 levy cycle and state sources primarily in the area of special education and long term facility maintenance funding.

Total General Fund expenditures increased \$298,599 or about 1.9% from the prior year. Factors contributing to the increase are employee salary costs and long term facility maintenance projects.

Table A-5

	General Fund Revenues		Change	
	Year Ended		Increase / (Decrease)	Percentage
	June 30, 2018	June 30, 2017		
Local sources	\$ 737,234	\$ 730,474	\$ 6,760	0.93%
Property taxes	1,667,601	1,520,362	147,239	9.68%
Other	31,069	(1,940)	33,009	1701.49%
State sources	13,815,947	13,471,058	344,889	2.56%
Federal sources	527,620	493,264	34,356	6.97%
Total	\$ 16,779,471	\$ 16,213,218	\$ 566,253	3.49%

	General Fund Expenditures		Change	
	Year Ended		Increase / (Decrease)	Percentage
	June 30, 2018	June 30, 2017		
Salaries	\$ 9,151,854	\$ 8,968,506	\$ 183,348	2.04%
Employee benefits	2,632,792	2,618,453	\$ 14,339	0.55%
Purchased services	3,203,474	3,203,540	\$ (66)	0.00%
Supplies and materials	619,812	484,821	\$ 134,991	27.84%
Capital expenditures	282,122	241,415	\$ 40,707	16.86%
Other expenditures	146,366	221,086	\$ (74,720)	-33.80%
Total	\$ 16,036,420	\$ 15,737,821	\$ 298,599	1.90%

**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 \$838,553 for an overall combined District fund balance of \$3,719,355.

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

Fund	June 30, 2017 Fund Balance	Revenue	Expenditures	June 30, 2018 Fund Balance	Change
General	\$1,869,416	\$16,779,471	\$16,036,420	\$2,621,242	\$751,826
Food Service	\$61,716	\$725,282	\$727,739	\$59,259	(\$2,457)
Community Ed	\$177,605	\$1,446,165	\$1,399,726	\$224,044	\$46,439
Debt Service	\$772,065	\$4,801,431	\$4,758,686	\$814,810	\$42,745
Total	\$2,880,802	\$23,752,349	\$22,922,571	\$3,719,355	\$838,553

General Fund Budgetary Highlights

The District's final General Fund budget anticipated that expenditures and other financing uses would exceed revenues by \$57,178. The actual result was an increase in fund balance of \$751,826. Revenues were \$271,365 over budget (1.64% of the projected budget) and expenditures were \$507,639 under budget (3.07% of the projected budget). The final budget was modified from the original budget.

Revenues:

- Final revenues were \$271,365 higher than the final budget. The contributing factors of the final revenues budget being higher than actual revenue received were:
 - final ADM was 12.45 higher
 - Special Education revenue
 - Medical Assistance billing revenue
 - Interest revenue

Expenditures:

- Final expenditures were \$507,639 lower than the final budget. The contributing factors of the final expenditures budget being higher than final expenses were:
 - Long term facilities maintenance projects not complete during the school year
 - Natural gas expense
 - Facilities and equipment purchases not being completed

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

By the end of 2018, the District had invested \$73,971,413 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 depreciation increased \$1,603,535 from 2017. 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**

	2018	2017
Land	\$ 26,700	\$ 26,700
Land improvements	414,769	414,769
Building and improvements	71,284,843	71,284,843
Equipment	2,245,101	2,075,083
Less: accumulated depreciation	(21,624,009)	(20,020,474)
Total	\$ 52,347,404	\$ 53,780,921

Long-Term Debt

At June 30, 2018 the District had \$33,795,000 in general obligation bond payable. This is a decrease of \$3,570,000 from June 30, 2017. 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**

	2018	2017
General Obligation Bonds	\$ 33,795,000	\$ 37,365,000
Premiums on Bonds	2,503,689	2,873,169
Certificates of Participation	652,901	736,809
Compensated Absences	197,822	177,599
Total	\$ 37,149,412	\$ 41,152,577
Long-Term Liabilities		
Due within one year	\$3,714,834	\$3,733,317
Due in more than one year	33,434,578	37,419,260
Total	\$ 37,149,412	\$ 41,152,577

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 5 years. 2018 shows a decrease from 2017. 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	2014	2015	2016	2017	2018
K	114.37	132.50	119.75	90.53	102.39
1-3	357.88	339.64	355.79	376.12	353.74
4-6	371.15	356.60	351.19	358.58	337.20
7-12	694.62	718.98	714.35	746.78	753.23
Total K - 12 ADM	1,538.02	1,547.72	1,541.09	1,572.01	1,546.56
ADM change	(31.48)	9.70	(6.63)	30.92	(25.45)

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, 2018

	Governmental Activities
Assets	
Cash and investments (including cash equivalents)	\$ 6,907,688
Current property taxes receivable	3,828,003
Delinquent property taxes receivable	138,971
Accounts receivable	7,154
Due from Department of Education	870,279
Due from Federal Government through Department of Education	362,461
Due from other Minnesota school districts	16,088
Due from other governmental units	32,620
Inventory	26,348
Prepaid items	89,830
Capital assets, not being depreciated	
Land	26,700
Capital assets, net of accumulated depreciation	
Land improvements	14,308
Buildings	51,756,229
Equipment	550,167
Total assets	64,626,846
Deferred Outflows of Resources	
Deferred outflows related to OPEB	72,800
Deferred outflows related to pensions	16,474,753
Total deferred outflows of resources	16,547,553
Total assets and deferred outflows of resources	\$ 81,174,399
Liabilities	
Accounts payable	\$ 146,380
Salaries and benefits payable	1,261,451
Interest payable	442,792
Due to other Minnesota school districts	76,787
Due to other governmental units	66,619
Unearned revenue	18,580
Bond principal payable	
Payable within one year	3,515,000
Payable after one year	32,783,689
Certificates of participation	
Payable within one year	92,500
Payable after one year	560,401
Compensated absences payable	
Payable within one year	107,334
Payable after one year	90,488
Total OPEB liability	816,378
Net pension liability	29,155,382
Total liabilities	69,133,781
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	6,877,410
Deferred inflows related to pensions	5,883,752
Total deferred inflows of resources	12,761,162
Net Position	
Net investment in capital assets	15,395,814
Restricted	
Debt service	453,004
Other purposes	776,333
Unrestricted	(17,345,695)
Total net position	(720,544)
Total liabilities, deferred inflows of resources, and net position	\$ 81,174,399

Independent School District No. 111
Statement of Activities
Year Ended June 30, 2018

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	\$ 1,153,009	\$ -	\$ -	\$ -	\$ (1,153,009)
District support services	587,885	-	-	-	(587,885)
Elementary and secondary regular instruction	9,393,715	254,862	899,191	-	(8,239,662)
Vocational education instruction	443,758	-	22,860	-	(420,898)
Special education instruction	4,063,903	160,730	1,994,612	-	(1,908,561)
Instructional support services	710,787	16,062	-	-	(694,725)
Pupil support services	1,586,626	-	31,306	-	(1,555,320)
Sites and buildings	3,277,079	-	-	368,149	(2,908,930)
Fiscal and other fixed cost programs	78,989	-	-	-	(78,989)
Food service	739,934	437,478	287,804	-	(14,652)
Community education and services	1,449,362	823,043	337,061	-	(289,258)
Interest and fiscal charges on long-term debt	804,173	-	-	-	(804,173)
Total governmental activities	\$ 24,289,220	\$ 1,692,175	\$ 3,572,834	\$ 368,149	(18,656,062)
General revenues					
Taxes					
					1,662,280
					285,564
					4,437,571
					11,529,734
					113,113
					69,173
					8,775
					<u>18,106,210</u>
					(549,852)
					626,812
					(797,504)
					<u>(170,692)</u>
					<u>\$ (720,544)</u>

Independent School District No. 111
Watertown, Minnesota
Balance Sheet - Governmental Funds
June 30, 2018

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 3,675,653	\$ 2,772,323	\$ 459,712	\$ 6,907,688
Current property taxes receivable	1,120,062	2,545,753	162,188	3,828,003
Delinquent property taxes receivable	34,439	98,551	5,981	138,971
Accounts receivable	7,154	-	-	7,154
Due from Department of Education	815,340	36,563	18,376	870,279
Due from Federal Government through Department of Education	362,461	-	-	362,461
Due from other Minnesota school districts	8,519	-	7,569	16,088
Due from other governmental units	32,620	-	-	32,620
Inventory	716	-	25,632	26,348
Prepaid items	89,830	-	-	89,830
Total assets	\$ 6,146,794	\$ 5,453,190	\$ 679,458	\$ 12,279,442
Liabilities				
Accounts payable	\$ 128,877	\$ -	\$ 17,503	\$ 146,380
Salaries and benefits payable	1,213,235	-	48,216	1,261,451
Due to other Minnesota school districts	76,787	-	-	76,787
Due to other governmental units	66,232	-	387	66,619
Unearned revenue	-	-	18,580	18,580
Total liabilities	1,485,131	-	84,686	1,569,817
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	2,012,452	4,558,346	306,612	6,877,410
Unavailable revenue - delinquent property taxes	27,969	80,034	4,857	112,860
Total deferred inflows of resources	2,040,421	4,638,380	311,469	6,990,270
Fund Balances				
Nonspendable	90,546	-	25,632	116,178
Restricted	488,173	814,810	257,671	1,560,654
Assigned	1,345	-	-	1,345
Unassigned	2,041,178	-	-	2,041,178
Total fund balances	2,621,242	814,810	283,303	3,719,355
Total liabilities, deferred inflows of resources, and fund balances	\$ 6,146,794	\$ 5,453,190	\$ 679,458	\$ 12,279,442

**Independent School District No. 111
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2018**

Total fund balances - governmental funds \$ 3,719,355

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	73,971,413
Less accumulated depreciation	(21,624,009)

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	(33,795,000)
Premium on bonds payable	(2,503,689)
Certificates of participation	(652,901)
Compensated absences	(197,822)
Total OPEB liability	(816,378)
Net pension liability	(29,155,382)

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	72,800
Deferred outflows of resources related to pensions	16,474,753
Deferred inflows of resources related to pensions	(5,883,752)

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.

112,860

Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.

(442,792)

Total net position - governmental activities

\$ (720,544)

Independent School District No. 111
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Local property taxes	\$ 1,667,601	\$ 4,449,249	\$ 286,061	\$ 6,402,911
Other local and county revenues	737,234	-	864,836	1,602,070
Revenue from state sources	13,815,947	352,182	333,579	14,501,708
Revenue from federal sources	527,620	-	249,493	777,113
Sales and other conversion of assets	31,069	-	437,478	468,547
Total revenues	<u>16,779,471</u>	<u>4,801,431</u>	<u>2,171,447</u>	<u>23,752,349</u>
Expenditures				
Current				
Administration	898,089	-	-	898,089
District support services	539,876	-	-	539,876
Elementary and secondary regular instruction	6,985,919	-	-	6,985,919
Vocational education instruction	318,063	-	-	318,063
Special education instruction	3,211,412	-	-	3,211,412
Instructional support services	574,253	-	-	574,253
Pupil support services	1,419,941	-	74,778	1,494,719
Sites and buildings	1,727,756	-	-	1,727,756
Fiscal and other fixed cost programs	78,989	-	-	78,989
Food service	-	-	727,739	727,739
Community education and services	-	-	1,324,948	1,324,948
Capital outlay				
District support services	134,257	-	-	134,257
Elementary and secondary regular instruction	9,074	-	-	9,074
Special education instruction	22,264	-	-	22,264
Sites and buildings	4,373	-	-	4,373
Debt service				
Principal	83,908	3,570,000	-	3,653,908
Interest and fiscal charges	28,246	1,188,686	-	1,216,932
Total expenditures	<u>16,036,420</u>	<u>4,758,686</u>	<u>2,127,465</u>	<u>22,922,571</u>
Excess of revenues over expenditures	743,051	42,745	43,982	829,778
Other Financing Sources				
Proceeds from sale of capital assets	8,775	-	-	8,775
Net change in fund balances	751,826	42,745	43,982	838,553
Fund Balances				
Beginning of year	<u>1,869,416</u>	<u>772,065</u>	<u>239,321</u>	<u>2,880,802</u>
End of year	<u>\$ 2,621,242</u>	<u>\$ 814,810</u>	<u>\$ 283,303</u>	<u>\$ 3,719,355</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, 2018**

Net change in fund balances - total governmental funds \$ 838,553

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	170,018
Depreciation expense	(1,603,535)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(20,223)
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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.	(5,211)
--	---------

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.	3,653,908
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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.	369,480
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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.	(3,978,625)
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Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(17,496)
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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 financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	43,279
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Change in net position - governmental activities	\$ (549,852)
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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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 1,651,267	\$ 1,646,434	\$ 1,667,601	\$ 21,167
Other local and county revenues	650,445	669,887	737,234	67,347
Revenue from state sources	13,702,758	13,612,569	13,815,947	203,378
Revenue from federal sources	439,695	546,537	527,620	(18,917)
Sales and other conversion of assets	24,555	32,679	31,069	(1,610)
Total revenues	<u>16,468,720</u>	<u>16,508,106</u>	<u>16,779,471</u>	<u>271,365</u>
Expenditures				
Current				
Administration	902,868	900,581	898,089	(2,492)
District support services	562,710	580,322	539,876	(40,446)
Elementary and secondary regular instruction	6,879,569	7,012,459	6,985,919	(26,540)
Vocational education instruction	274,049	311,609	318,063	6,454
Special education instruction	3,342,407	3,329,153	3,211,412	(117,741)
Instructional support services	629,463	573,249	574,253	1,004
Pupil support services	1,475,942	1,471,373	1,419,941	(51,432)
Sites and buildings	2,032,028	1,928,581	1,727,756	(200,825)
Fiscal and other fixed cost programs	79,000	79,000	78,989	(11)
Capital outlay				
District support services	152,000	142,000	134,257	(7,743)
Elementary and secondary regular instruction	18,500	18,500	9,074	(9,426)
Special education instruction	25,294	25,294	22,264	(3,030)
Pupil support services	-	14,794	-	(14,794)
Sites and buildings	-	45,000	4,373	(40,627)
Debt service				
Principal	83,908	83,908	83,908	-
Interest and fiscal charges	28,236	28,236	28,246	10
Total expenditures	<u>16,485,974</u>	<u>16,544,059</u>	<u>16,036,420</u>	<u>(507,639)</u>
Excess of revenues over (under) expenditures	(17,254)	(35,953)	743,051	779,004
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	8,775	8,775	-
Transfers out	(30,000)	(30,000)	-	30,000
Total other financing sources (uses)	<u>(30,000)</u>	<u>(21,225)</u>	<u>8,775</u>	<u>30,000</u>
Net change in fund balance	<u>\$ (47,254)</u>	<u>\$ (57,178)</u>	751,826	<u>\$ 809,004</u>
Fund Balance				
Beginning of year			<u>1,869,416</u>	
End of year			<u>\$ 2,621,242</u>	

**Independent School District No. 111
Statement of Fiduciary Net Position
June 30, 2018**

	Private Purpose Trust Fund	Agency Funds
Assets		
Cash and investments	\$ 88,550	\$ 2,882
Other receivables	5,728	-
Total assets	\$ 94,278	\$ 2,882
Liabilities		
Due to others	\$ -	\$ 2,882
Due to students	181	-
Total liabilities	181	\$ 2,882
Net Position		
Held in trust for scholarships	94,097	
Total liabilities and net position	\$ 94,278	

**Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2018**

	Private Purpose Trust Fund
Additions	
Contributions	\$ 35,304
Interest revenue	74
Total additions	35,378
Deductions	
Scholarship	29,279
Change in net position	6,099
Net Position	
Beginning of year	87,998
End of year	\$ 94,097

See notes to financial statements.

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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.

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 segments 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.

Agency Fund – This fund is used to account for assets that the District holds on behalf of others as their agent.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments

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

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

Cash and investments at June 30, 2018, were comprised of deposits, shares in the Minnesota Trust (MNTrust) Investment Shares Portfolio, MNTrust Term Series and Certificates of Deposits.

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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2017, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2018. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

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

H. Prepaid Items

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

I. Property Taxes

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

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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

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.

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 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 three 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.

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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations (Continued)

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

M. Compensated Absences

Employees earn vacation pay at rates dependent upon each employee labor contract. Outstanding vacation liabilities are payable upon termination of employment. Vacation that is earned and unused as of June 30, 2018, 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, 2018.

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.

Independent School District No. 111
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance (Continued)

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

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, 2018, the District deposits were not exposed to custodial credit risk.

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

Checking	\$ 538,048
Certificate of deposit	<u>1,748,837</u>
Total	<u><u>\$ 2,286,885</u></u>

Independent School District No. 111
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

As of June 30, 2018, 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	\$ 1,466,710	\$ 1,466,710	AAA
MN Trust Term Series	2,000,000	2,000,000	AAA
American Express Centruion Bank CD	248,209	248,209	N/A
Bankunited, NA CD	248,546	248,546	N/A
Wells Fargo Bank, NA CD	249,550	249,550	N/A
Synovus Bank CD	248,544	248,544	N/A
F&M Bank CD	249,676	249,676	N/A
Total	<u>\$ 4,711,235</u>	<u>\$ 4,711,235</u>	

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 exposed to concentration of credit risk as each of its investments in certificates of deposit exceeded 5% of the investments.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District has the following recurring fair value measurements as of June 30, 2018:

- \$1,244,525 are valued using significant other observable inputs (Level 2 inputs)

The following is a summary of total deposits and investments.

Petty cash	\$ 1,000
Deposits	2,286,885
Investments	<u>4,711,235</u>
Total	<u>\$ 6,999,120</u>

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, 2018, basic financial statements as follows:

Statement of Net Position		
Cash and investments		\$ 6,907,688
Statement of Fiduciary Net Position		
Private Purpose Trust Fund - cash and investments		88,550
Agency Funds - cash investments		<u>2,882</u>
Total deposits and investments		<u><u>\$ 6,999,120</u></u>

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, 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	<u>2,075,083</u>	<u>170,018</u>	-	<u>2,245,101</u>
Total capital assets being depreciated	<u>73,774,695</u>	<u>170,018</u>	-	<u>73,944,713</u>
Less accumulated depreciation for				
Land improvements	387,649	12,812	-	400,461
Buildings	18,029,315	1,499,299	-	19,528,614
Equipment	<u>1,603,510</u>	<u>91,424</u>	-	<u>1,694,934</u>
Total accumulated depreciation	<u>20,020,474</u>	<u>1,603,535</u>	-	<u>21,624,009</u>
Total capital assets being depreciated, net	<u>53,754,221</u>	<u>(1,433,517)</u>	-	<u>52,320,704</u>
Governmental activities, capital assets, net	<u><u>\$ 53,780,921</u></u>	<u><u>\$ (1,433,517)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 52,347,404</u></u>

Independent School District No. 111
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2018, was charged to the following governmental functions:

Administration	\$ 612
District support services	16,125
Elementary and secondary regular instruction	18,391
Special education instruction	3,948
Instructional support services	12,595
Pupil support services	3,706
Sites and buildings	1,536,924
Food service	8,719
Community service	2,515
	<u>1,603,535</u>
Total depreciation expense	<u>\$ 1,603,535</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	\$ 20,270,000	\$ 2,245,000
2013A G.O. Alternative Facilities Bonds	04/30/13	.04%-3.0%	3,175,000	02/01/33	2,535,000	75,000
2015A G.O. School Building Refunding Bonds	11/24/15	3.0%	5,055,000	02/01/22	2,875,000	980,000
2015B G.O. School Building Refunding Bonds	11/24/15	2.0%-4.0%	8,115,000	02/01/26	8,115,000	215,000
Unamortized premium on bonds					2,503,689	-
Total G.O. bonds, net of premium					36,298,689	3,515,000
Certificates of participation	07/09/10	4.04%	1,262,512	02/07/24	652,901	92,500
Compensated absences payable					197,822	107,334
Total all long-term liabilities					\$ 37,149,412	\$ 3,714,834

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
2019	\$ 3,515,000	\$ 1,073,462	\$ 4,588,462
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
2024-2028	13,570,000	935,284	14,505,284
2029-2033	1,270,000	108,168	1,378,168
Total	<u>\$ 33,795,000</u>	<u>\$ 5,096,676</u>	<u>\$ 38,891,676</u>

Year Ending June 30,	Certificates of Participation		
	Principal	Interest	Total
2019	\$ 92,500	\$ 24,701	\$ 117,201
2020	101,683	20,792	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>\$ 652,901</u>	<u>\$ 81,788</u>	<u>\$ 734,689</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. school bonds	\$ 37,365,000	\$ -	\$ 3,570,000	\$ 33,795,000
Certificates of participation	736,809	-	83,908	652,901
Premium on bonds	2,873,169	-	369,480	2,503,689
Compensated absences payable	177,599	112,802	92,579	197,822
Total long-term liabilities	<u>\$ 41,152,577</u>	<u>\$ 112,802</u>	<u>\$ 4,115,967</u>	<u>\$ 37,149,412</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	\$ 716	\$ -	\$ 25,632	\$ 26,348
Prepaid items	89,830	-	-	89,830
Total nonspendable	<u>90,546</u>	<u>-</u>	<u>25,632</u>	<u>116,178</u>
Restricted/reserved for				
Staff Development	1,220	-	-	1,220
LTFM	268,236	30	-	268,266
Medical Assistance	218,717	-	-	218,717
Debt Service	-	814,780	-	814,780
Food Service	-	-	33,627	33,627
Community Education	-	-	173,226	173,226
Early Childhood Family Education	-	-	24,968	24,968
School Readiness	-	-	12,600	12,600
Community Service	-	-	13,250	13,250
Total restricted/reserved	<u>488,173</u>	<u>814,810</u>	<u>257,671</u>	<u>1,560,654</u>
Assigned for				
HRA Rollovers	1,345	-	-	1,345
Unassigned	<u>2,041,178</u>	<u>-</u>	<u>-</u>	<u>2,041,178</u>
Total fund balance	<u>\$ 2,621,242</u>	<u>\$ 814,810</u>	<u>\$ 283,303</u>	<u>\$ 3,719,355</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).

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).

Independent School District No. 111
Notes to Financial Statements

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

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.

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, 2018, was \$4,785,897. The components of pension expense are noted in the following plan summaries.

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.

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

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

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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

B. Benefits Provided

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

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

Tier I Benefits

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).

**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 II Benefits

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

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

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

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, 2016, June 30, 2017, and June 30, 2018, were:

	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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	\$ 367,791
Deduct Employer contributions not related to future contribution efforts	810
Deduct TRA's contributions not included in allocation	<u>(456)</u>
Total employer contributions	368,145
Total non-employer contributions	<u>35,588</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 403,733</u></u>

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

Independent School District No. 111
Notes to Financial Statements

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

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2017
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	5.12%, from the single equivalent interest rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for 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	2.00%

Mortality Assumption

Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational 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	Target	Long-Term Expected Real Rate of Return
Domestic stocks	39 %	5.10 %
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Unallocated cash	2	0.00
Total	<u>100 %</u>	

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

Changes in actuarial assumptions since the 2016 valuation:

- 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 3.5% 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 Financial Statements**

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

Teachers' Retirement Association (Continued)

E. Discount Rate

The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.5%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

F. Net Pension Liability

On June 30, 2018, the District reported a liability of \$26,429,442 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.1324% at the end of the measurement period and 0.1374% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 26,429,442
State's proportionate share of the net pension liability associated with the District	2,554,872

For the year ended June 30, 2018, the District recognized pension expense of \$4,528,755. It recognized \$49,001 as an increase to pension expense for the support provided by direct aid.

**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)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217,669	\$ 185,618
Net difference between projected and actual earnings on plan investments	-	191,857
Changes in assumptions	14,912,978	3,702,348
Changes in proportion	41,240	1,079,866
District's contributions to TRA subsequent to the measurement date	546,668	-
Total	\$ 15,718,555	\$ 5,159,689

\$546,668 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, 2019.

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

2019		\$ 2,656,217
2020		3,158,864
2021		2,859,956
2022		2,313,376
2023		(976,215)
Total		\$ 10,012,198

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

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

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower and 1 percent higher than the current rate.

District proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
\$ 34,881,770	\$ 26,429,442	\$ 19,303,100

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.

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

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 services.

Independent School District No. 111
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

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

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

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 2018. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were \$210,614. The District's contributions were equal to the required contributions as set by state statute.

**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

General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of \$2,725,940 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 to the fund in 2018. 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 \$34,243. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0427%, which was a decrease of 0.0003% from its proportion measured as of June 30, 2016.

General Employees Fund Pension Costs (Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$257,142 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$989 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2018, 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	\$ 89,839	\$ 179,298
Changes in actuarial assumptions	455,745	273,276
Difference between projected and actual investment earnings	-	129,437
Change in proportion	-	142,052
District's contributions to PERA subsequent to the measurement date	210,614	-
Total	\$ 756,198	\$ 724,063

**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)

\$210,614 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2019		\$ (123,782)
2020		117,847
2021		(56,833)
2022		<u>(115,711)</u>
 Total		 <u>\$ (178,479)</u>

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the 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 for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and then 2.5% thereafter.

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

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (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, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.

**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 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.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39%	5.10 %
International stocks	19%	5.30
Bonds	20%	0.75
Alternative assets	20%	5.90
Cash	2%	0.00
Total	<u>100%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 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	\$ 4,228,135	\$ 2,725,940	\$ 1,496,120

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. Medical coverage is administered by BlueCross BlueShield. 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.

C. Members

As of June 30, 2018, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Active employees	226
Total	237

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 with Health Partners. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2018, the District contributed \$72,800 to the plan.

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, 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	3.40%
Salary Increases	3.00%
Inflation	2.50%
Healthcare cost trend increases	6.5% initially, decreasing over 6 years to an ultimate rate of 5.0%
Mortality Assumption	RP-2014 mortality tables adjusted to 2006 White Collar Mortality Tables with MP-2016 Generational Improvement Scale

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

The discount rate used to measure the total OPEB liability was 3.4%.

Independent School District No. 111
Notes to Financial Statements

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability

The District's total OPEB liability of \$816,378 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2016	<u>\$ 793,826</u>
Changes for the year	
Service cost	50,247
Interest	27,764
Benefit payments	<u>(55,459)</u>
Net changes	<u>22,552</u>
Balances at June 30, 2017	<u><u>\$ 816,378</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.00% in 2016 to 3.40% in 2017.

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.56% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.40%)	Current (3.40%)	1% increase (4.40%)
Total OPEB Liability (Asset)	\$ 867,598	\$ 816,378	\$ 767,946

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

	1% decrease (5.5% decreasing to 4.0%)	Current (6.5% decreasing to 5.0%)	1% increase (7.5% decreasing to 6.0%)
Total OPEB Liability (Asset)	\$ 751,666	\$ 816,378	\$ 893,264

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$78,011. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Subsequent Contributions	\$ 72,800	\$ -

\$72,800 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, 2019.

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$797,504 to add the beginning total OPEB liability.

NOTE 9 – 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

	June 30, 2017
Total OPEB Liability	
Service cost	\$ 50,247
Interest	27,764
Benefit payments	(55,459)
Net change in total OPEB liability	22,552
Beginning of year	793,826
End of year	\$ 816,378
Covered payroll	\$ 9,535,899
Total OPEB liability as a percentage of covered-employee payroll	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 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 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%

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 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 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%	81.5%
2015	0.1364%	8,437,689	1,034,755	9,472,444	6,922,747	121.9%	76.8%
2016	0.1374%	32,773,178	3,289,760	36,062,938	7,144,720	458.7%	44.9%
2017	0.1324%	26,429,442	2,554,872	28,984,314	7,125,240	370.9%	51.6%

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	210,614	210,614	-	2,808,187	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	7.0%
2015	519,206	519,206	-	6,922,747	7.5%
2016	535,854	535,854	-	7,144,720	7.5%
2017	534,393	534,393	-	7,125,240	7.5%
2018	546,668	546,668	-	7,288,907	7.5%

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

2017 Changes

Changes in Actuarial Assumptions

- 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.

2016 Changes

Changes in Actuarial Assumptions

- 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.

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

TRA Retirement Fund (Continued)

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%.

General Employees Fund

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.

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.

SUPPLEMENTARY INFORMATION

**Independent School District No. 111
Watertown, Minnesota
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018**

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Food Service</u>	<u>Community Service</u>	
Assets			
Cash and investments	\$ 60,671	\$ 399,041	\$ 459,712
Current property taxes receivable	-	162,188	162,188
Delinquent property taxes receivable	-	5,981	5,981
Due from Department of Education	-	18,376	18,376
Due from other Minnesota school districts	-	7,569	7,569
Inventory	25,632	-	25,632
	<u>25,632</u>	<u>-</u>	<u>25,632</u>
 Total assets	 <u>\$ 86,303</u>	 <u>\$ 593,155</u>	 <u>\$ 679,458</u>
Liabilities			
Accounts payable	\$ 8,077	\$ 9,426	\$ 17,503
Salaries and benefits payable	-	48,216	48,216
Due to other governmental units	387	-	387
Unearned revenue	18,580	-	18,580
Total liabilities	<u>27,044</u>	<u>57,642</u>	<u>84,686</u>
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	306,612	306,612
Unavailable revenue - delinquent property taxes	-	4,857	4,857
Total deferred inflows of resources	<u>-</u>	<u>311,469</u>	<u>311,469</u>
Fund Balances			
Nonspendable	25,632	-	25,632
Restricted	33,627	224,044	257,671
Total fund balances	<u>59,259</u>	<u>224,044</u>	<u>283,303</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 86,303</u>	 <u>\$ 593,155</u>	 <u>\$ 679,458</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, 2018

	Special Revenue Funds		Total
	Food Service	Community Service	
Revenues			
Local property taxes	\$ -	\$ 286,061	\$ 286,061
Other local and county revenues	-	864,836	864,836
Revenue from state sources	39,666	293,913	333,579
Revenue from federal sources	248,138	1,355	249,493
Sales and other conversion of assets	437,478	-	437,478
Total revenues	<u>725,282</u>	<u>1,446,165</u>	<u>2,171,447</u>
Expenditures			
Current			
Pupil support services	-	74,778	74,778
Food service	727,739	-	727,739
Community education and services	-	1,324,948	1,324,948
Total expenditures	<u>727,739</u>	<u>1,399,726</u>	<u>2,127,465</u>
Net change in fund balances	(2,457)	46,439	43,982
Fund Balances			
Beginning of year	<u>61,716</u>	<u>177,605</u>	<u>239,321</u>
End of year	<u>\$ 59,259</u>	<u>\$ 224,044</u>	<u>\$ 283,303</u>

Independent School District No. 111
Uniform Financial Accounting And Reporting Standards
Compliance Table
Year Ended June 30, 2018

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 16,779,471	\$ 16,779,472	\$ (1)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	16,036,420	16,036,424	(4)	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	90,546	90,546	-	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	-	-	-	Total revenue	\$ 4,801,431	\$ 4,801,432	\$ (1)
426 \$25 Taconite	-	-	-	Total expenditures	4,758,686	4,758,688	(2)
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	-	-	-	433 Maximum effort loan aid	-	-	-
438 Gifted and Talented	-	-	-	451 QZAB payments	-	-	-
440 Teacher Development and Evaluation	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted fund balance	814,780	814,779	1
445 Career Technical Programs	-	-	-	467 Long-term Facilities Maintenance	30	30	-
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	\$ 35,378	\$ 35,378	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total expenditures	29,279	29,279	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
459 Basic Skills Extended Time	-	-	-	422 Net position	94,097	94,097	-
467 Long-term Facilities Maintenance	268,236	268,236	-	20 Internal Service Fund			
472 Medical Assistance	218,717	218,717	-	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	1,345	1,345	-	45 OPEB Irrevocable Trust			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
422 Unassigned fund balance	2,041,178	2,041,174	4	Total expenditures	-	-	-
02 Food Services Fund				<i>Unassigned:</i>			
Total revenue	\$ 725,282	\$ 725,282	\$ -	422 Net position	-	-	-
Total expenditures	727,739	727,739	-	47 OPEB Debt Service			
<i>Nonspendable:</i>				Total revenue	\$ -	\$ -	\$ -
460 Nonspendable fund balance	25,632	25,632	-	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	33,627	33,627	-	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	\$ 1,446,165	\$ 1,446,164	\$ 1	01 General Fund			
Total expenditures	1,399,726	1,399,726	-	Total revenue	\$ 16,779,471	\$ 16,779,472	\$ (1)
<i>Nonspendable:</i>				Total expenditures	16,036,420	16,036,424	(4)
460 Nonspendable fund balance	-	-	-	<i>Nonspendable:</i>			
<i>Restricted/reserved:</i>				460 Nonspendable fund balance	90,546	90,546	-
426 \$25 Taconite	-	-	-	<i>Restricted/reserved:</i>			
431 Community Education	173,226	173,226	-	403 Staff Development	1,220	1,220	-
432 ECFE	24,968	24,968	-	406 Health and Safety	-	-	-
440 Teacher Development and Evaluation	-	-	-	407 Capital Projects Levy	-	-	-
444 School Readiness	12,600	12,600	-	408 Cooperative Programs	-	-	-
447 Adult Basic Education	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	414 Operating Debt	-	-	-
<i>Restricted:</i>				416 Levy Reduction	-	-	-
464 Restricted fund balance	13,250	13,249	1	417 Taconite Building Maintenance	-	-	-
<i>Unassigned:</i>				424 Operating Capital	-	-	-
463 Unassigned fund balance	-	-	-	426 \$25 Taconite	-	-	-

Independent School District No. 111
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster:		
Type A Lunch and Commodities Programs	10.555	220,039
School Breakfast	10.553	29,454
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>249,493</u>
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	134,982
Title II, Part A - Improving Teacher Quality	84.367	35,124
Handicapped Early Education	84.173	8,732
IDEA, Part B	84.027	309,182
Special Education Cluster		<u>317,914</u>
IDEA, Part C - Infants and Toddlers	84.181	28,988
Through Carver-Scott Special Education Cooperative		
Carl Perkins	84.048A	10,610
Total U.S. Department of Education		<u>527,618</u>
Total Federal Expenditures		<u>\$ 777,111</u>

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

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

NOTE 4 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate.

**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, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 2018.

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.



Internal Control over Financial Reporting (Continued)

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 Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency as audit finding 2018-001.

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 Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the 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.

A handwritten signature in black ink that reads "BergankDV, Ltd." in a cursive, stylized font.

St. Cloud, Minnesota
October 30, 2018



Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 111's, Watertown, Minnesota compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

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

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



Opinion on Each Major Federal Program

In our opinion, Independent School District No. 111 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

A handwritten signature in black ink that reads 'BergankDV, Ltd.' in a cursive, stylized script.

St. Cloud, Minnesota
October 30, 2018

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, Audit Finding 2018-001
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No:	84.027, 84.173
Name of Federal Program or Cluster:	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	No

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

SECTION II – FINANCIAL STATEMENT FINDING

Audit Finding 2018-001 – Segregation of Duties

Criteria or Specific Requirement:

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

Condition:

The District does not have adequate segregation of accounting duties.

Context:

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

Effect:

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

Cause:

- 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.

Recommendation:

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

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.

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

SECTION II – FINANCIAL STATEMENT FINDINGS

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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questions costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Audit Finding 2015-002 – Preparation of Financial Statements

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a district of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, on a timely basis. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

CORRECTIVE ACTION PLAN TAKEN:

The District reviewed the financial statements in conjunction with the disclosure checklist.

Report on Legal Compliance

Independent Auditor's Report

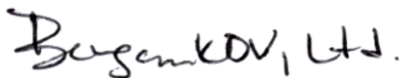
To the School Board
Independent School District No. 111
Watertown-Mayer Schools
Watertown, Minnesota

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, 2018, and the related notes to financial statements, and have issued our report thereon dated October 30, 2018.

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*. 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 30, 2018