

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

Financial Statements

June 30, 2017



**Independent School District No. 111
Watertown-Mayer Schools
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Watertown-Mayer Schools
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**Independent School District No. 111
Watertown-Mayer Schools
Board of Education and Administration
June 30, 2017**

<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
Cassie Vogt	Clerk	December 31, 2020
Stacy Unowsky	Treasurer	December 31, 2020
Jeffrey Jackson	Director	December 31, 2020
Kelly Thaemert	Director	December 31, 2020
Tim Thompson	Director	December 31, 2018
<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, 2017, 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, 2017, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying 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, 2017, 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 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 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.'.

St. Cloud, Minnesota
October 30, 2017

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, 2017. 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 highlights for the 2016-2017 include the following:

- Total district's enrollment increased by 30.92 ADM
- General Fund overall revenues and other financing sources exceeded expenditures by \$475,397

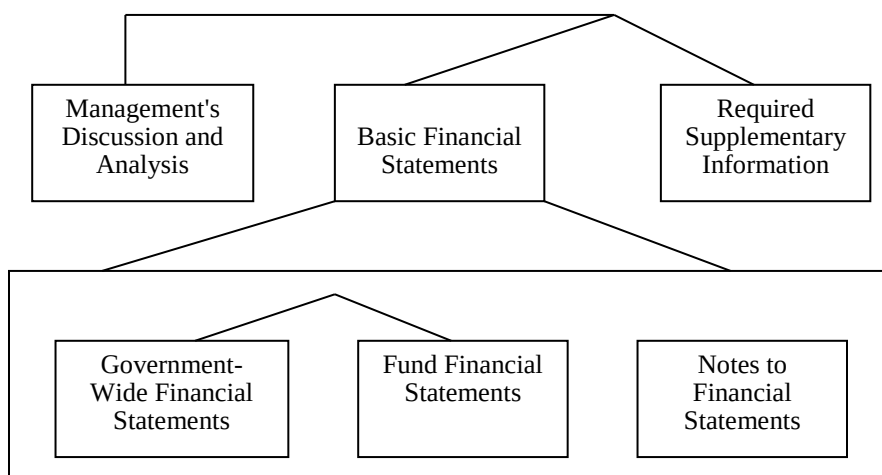
OVERVIEW OF THE FINANCIAL STATEMENTS

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	❖ Statement of Net Position ❖ Statement of Activities	❖ Balance Sheet ❖ Statement of Revenues, Expenditures, and Changes in Fund Balances	❖ 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 it has changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is 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, 2017, was \$626,812 (see details in Table A-1 below). This is a decrease of 1,599,049 from June 30, 2016. The decrease was due to the district's bond refunding activity and the increase of deferred outflows of resources related to pensions.

Table A-1

	<u>30-Jun-17</u>	<u>30-Jun-16</u>	<u>Total % Change</u>
Current and Other Assets	\$10,903,557	\$18,944,122	-42.44%
Capital Assets	<u>53,780,921</u>	<u>55,333,414</u>	<u>-2.81%</u>
Total Assets	64,684,478	74,277,536	-12.92%
Deferred Outflows of Resources	<u>22,306,422</u>	<u>2,033,051</u>	<u>997.19%</u>
Total Assets and Deferred Outflows of Resources	<u>\$86,990,900</u>	<u>\$76,310,587</u>	<u>14.00%</u>
Long-Term Liabilities	\$77,417,142	\$64,154,826	20.67%
Current Liabilities	<u>1,976,525</u>	<u>2,269,347</u>	<u>-12.90%</u>
Total Liabilities	79,393,667	66,424,173	19.53%
Deferred Inflow of Resources	6,970,421	7,660,553	-9.01%
Net Position			
Net Investment in Capital Assets	12,805,943	10,563,088	21.23%
Restricted	774,940	535,202	44.79%
Unrestricted	<u>(12,954,071)</u>	<u>(8,872,429)</u>	<u>46.00%</u>
Total Net Position	<u>626,812</u>	<u>2,225,861</u>	<u>-71.84%</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$86,990,900</u>	<u>\$76,310,587</u>	<u>14.00%</u>

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Table A-2

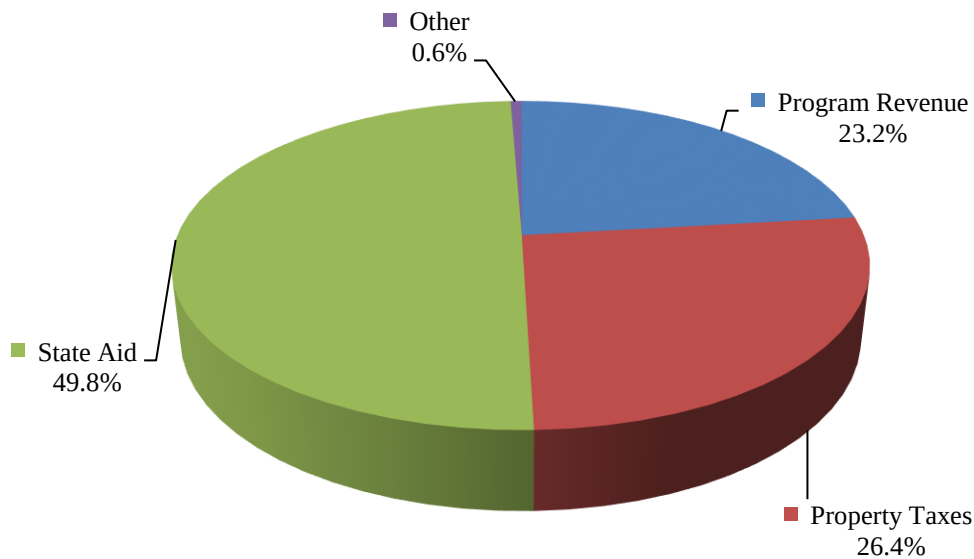
	2016-2017	2015-2016	Total Percent Change
Revenues			
Program revenues			
Charges for services	\$ 1,596,588	\$ 1,571,483	1.60%
Operating grants and contributions	3,623,763	3,590,490	0.93%
Capital grants and contributions	260,657	221,797	17.52%
General revenues			
Property taxes	6,229,917	5,740,902	8.52%
Aids and payments from state and other	11,782,729	11,349,433	3.82%
Other sources	145,450	303,092	-52.01%
Total revenues	<u>23,639,104</u>	<u>22,777,197</u>	<u>3.78%</u>
Expenses			
Administration	1,184,040	887,531	33.41%
District support services	592,549	443,508	33.61%
Elementary and secondary regular instruction	9,594,483	6,912,570	38.80%
Vocational instruction	409,140	268,380	52.45%
Special education instruction	4,097,767	3,119,435	31.36%
Instructional support services	802,957	870,721	-7.78%
Pupil support services	1,671,862	1,391,543	20.14%
Site, buildings and equipment	3,451,029	3,165,752	9.01%
Fiscal and other fixed cost programs	84,676	89,897	-5.81%
Food service	799,324	778,854	2.63%
Community education and services	1,453,663	1,119,219	29.88%
Interest and fiscal charges on long-term debt	1,096,663	1,858,476	-40.99%
Total expenses	<u>25,238,153</u>	<u>20,905,886</u>	<u>20.72%</u>
Change in net position	(1,599,049)	1,871,311	-185.45%
Net position – beginning	<u>2,225,861</u>	<u>354,550</u>	<u>527.80%</u>
Net position – ending	<u>\$ 626,812</u>	<u>\$ 2,225,861</u>	<u>-71.84%</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 \$5,481,008, property taxes of \$6,229,917 aid, payments from the state and other of \$11,782,729 and \$145,450 from miscellaneous other sources. Expenses totaling \$25,238,153 consisted mainly of regular, vocational, special education instruction, instructional support and pupil support cost of \$16,576,209. Other areas of cost included: support services (District and administrative) totaling \$1,776,589, sites, building and equipment \$3,451,029, fiscal and other fixed cost of \$84,676, food services activities \$799,324, Community Education activities of \$1,453,663 and interest and other fiscal changes on long-term, debt of \$1,096,663.

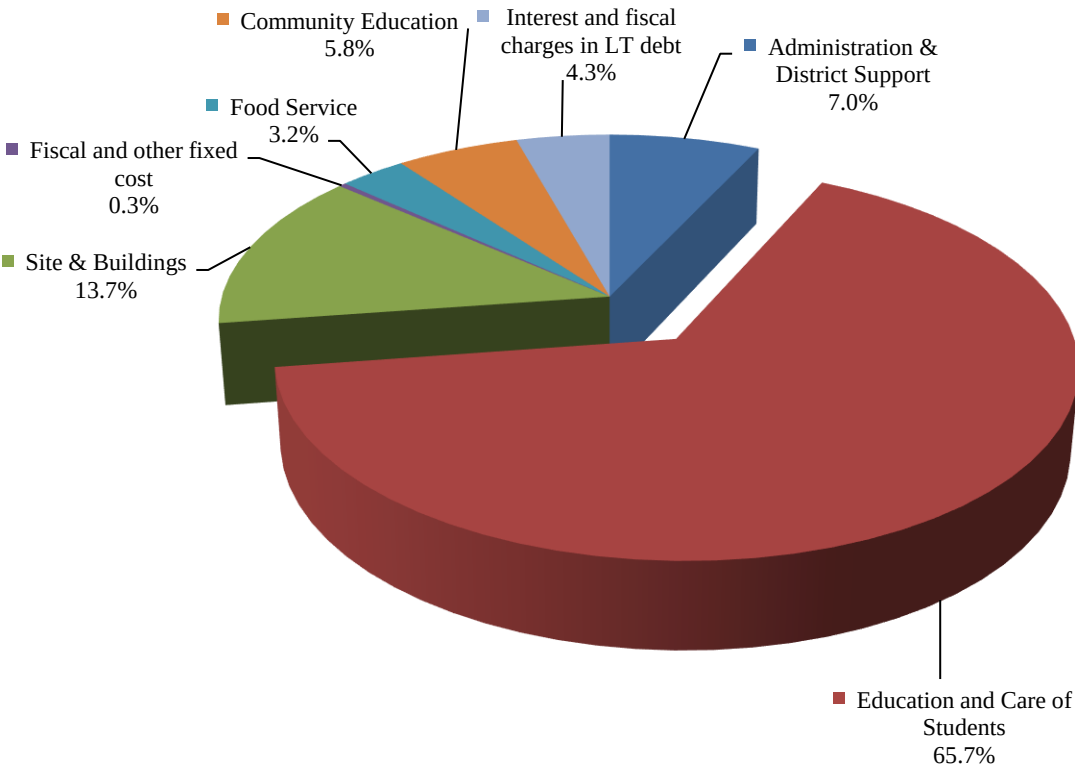
**Chart A-3
District Revenue**



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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Chart A-4
District's Expenditures**



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 \$387,443 or about 2.45% 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 2016 levy cycle and MA billing for special education services.

Total General Fund expenditures increased \$85,182 or about .54% from the prior year. Factors contributing to the increase are Long-Term facility maintenance expenses. The decrease in employee salary and benefits from 2016 is due to reduction of a Kindergarten teacher due to lower enrollment along with reallocation of administrative positions and the reduction of District's TRA pension liability.

**Table A-5
General Fund Revenues**

	Year Ended		Change	
	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage
Local sources	\$ 730,474	\$ 599,720	\$ 130,754	21.80%
Property taxes	1,520,362	1,379,979	140,383	10.17%
Other	(1,940)	28,350	(30,290)	-106.84%
State sources	13,471,058	13,349,781	121,277	0.91%
Federal sources	493,264	467,945	25,319	5.41%
Total	\$ 16,213,218	\$ 15,825,775	\$ 387,443	2.45%

General Fund Expenditures

			Change	
	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage
Salaries	\$ 8,968,506	\$ 9,067,618	\$ (99,112)	-1.09%
Employee benefits	2,618,453	2,895,120	(276,667)	-9.56%
Purchased services	3,203,540	2,937,926	265,614	9.04%
Supplies and materials	484,821	392,337	92,484	23.57%
Capital expenditures	241,415	213,615	27,800	13.01%
Other expenditures	221,086	146,023	75,063	51.40%
Total	\$ 15,737,821	\$ 15,652,639	\$ 85,182	0.54%

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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a decrease in combined fund balance of \$8,029,970 for an overall combined District fund balance of \$2,880,802. The Debt Service Fund's significant fund balance reduction was due to a bond refunding.

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

Fund	June 30, 2016 Fund Balance	Revenue	Expenditures	June 30, 2017 Fund Balance	Change
General	\$1,394,019	\$16,213,218	\$15,737,821	\$1,869,416	\$475,397
Food Service	53,624	785,321	777,229	\$61,716	\$8,092
Community Ed	129,959	1,379,619	1,331,973	\$177,605	\$47,646
Debt Service	9,333,170	4,856,131	13,417,236	\$772,065	(\$8,561,105)
Total	\$10,910,772	\$23,234,289	\$31,264,259	\$2,880,802	(\$8,029,970)

General Fund Budgetary Highlights

The District's final General Fund budget anticipated that expenditures would exceed revenues by \$ 70,194. The actual result was an increase in fund balance of \$475,397. Revenues were \$108,650 over budget (.67% of the projected budget) and expenditures were \$296,553 under budget (1.85% of the projected budget). The final budget was modified from the original budget.

Revenues:

- Final revenues were \$108,650 higher than the final budget. The contributing factor of the final revenues being higher than budgeted was Medical Assistance billing, interest revenue, and funds collected from Carver County for the Mental Health services provided.

Expenditures:

- Final expenditures were \$296,553 lower than the final budget. The contributing factor of the final budget expenditures being higher than actual was due to conservatively budgeting for new long-term facilities maintenance funding.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

By the end of 2017, the District had invested \$73,801,395 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 \$1,597,247 from 2016. 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**

	2017	2016
Land	\$ 26,700	\$ 26,700
Land improvements	414,769	414,769
Building and improvements	71,284,843	71,284,643
Equipment	2,075,083	2,030,329
Less: accumulated depreciation	(20,020,474)	(18,423,227)
Total	<u>\$ 53,780,921</u>	<u>\$ 55,333,414</u>

Long-Term Debt

At June 30, 2017 the District had \$37,365,000 in general obligation bonds payable. This is a decrease of \$11,735,000 from June 30, 2016. The decrease is due to bond refunding. 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**

	2017	2016
General obligation bonds	\$ 37,365,000	\$ 49,100,000
Premiums on bonds	2,873,169	3,242,650
Certificates of participation	736,809	812,676
Compensated absences	177,599	172,670
Total	<u>\$ 41,152,577</u>	<u>\$ 53,327,996</u>
Long-term liabilities		
Due within one year	\$3,733,317	\$11,872,289
Due in more than one year	37,419,260	41,455,707
Total	<u>\$ 41,152,577</u>	<u>\$ 53,327,996</u>

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. 2016 shows an increase 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	2013	2014	2015	2016	2017
K	114.69	114.37	132.50	119.75	90.53
1-3	367.74	357.88	339.64	355.79	376.12
4-6	379.68	371.15	356.60	351.19	358.58
7-12	707.39	694.62	718.98	714.35	746.78
Total K - 12 ADM	1,569.50	1,538.02	1,547.72	1,541.09	1,572.01
ADM change	21.37	(31.48)	9.70	(6.63)	30.92

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, 2017

	Governmental Activities
Assets	
Cash and cash equivalents (including cash equivalents)	\$ 5,678,039
Current property taxes receivable	3,531,292
Delinquent property taxes receivable	141,887
Accounts receivable	8,008
Due from Department of Education	809,764
Due from Federal Government through Department of Education	490,089
Due from other Minnesota school districts	24,559
Due from other governmental units	49,027
Inventory	28,135
Prepaid items	83,620
Net other post employment benefits (OPEB) asset	59,137
Capital assets, not being depreciated	
Land	26,700
Capital assets, net of accumulated depreciation	
Land improvements	27,120
Buildings	53,255,528
Equipment	471,573
Total assets	<u>64,684,478</u>
Deferred Outflows of Resources	
Deferred outflows related to pensions	<u>22,306,422</u>
Total assets and deferred outflows of resources	<u><u>\$ 86,990,900</u></u>
Liabilities	
Accounts payable	\$ 166,629
Salaries and benefits payable	1,184,869
Interest payable	486,071
Due to other Minnesota school districts	73,142
Due to other governmental units	45,725
Unearned revenue	20,089
Bond principal payable	
Payable within one year	3,570,000
Payable after one year	36,668,169
Certificates of participation	
Payable within one year	83,908
Payable after one year	652,901
Compensated absences payable	
Payable within one year	79,409
Payable after one year	98,190
Net pension liability	36,264,565
Total liabilities	<u>79,393,667</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	6,342,808
Deferred inflows related to pensions	627,613
Total deferred inflows of resources	<u>6,970,421</u>
Net Position	
Net investment in capital assets	12,805,943
Restricted	
Debt service	378,781
Other purposes	396,159
Unrestricted	(12,954,071)
Total net position	<u>626,812</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 86,990,900</u></u>

Independent School District No. 111
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating Grants	Capital Grants	Revenues and
		Services	and	and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Governmental activities					
Administration	\$ 1,184,040	\$ -	\$ -	\$ -	\$ (1,184,040)
District support services	592,549	-	-	-	(592,549)
Elementary and secondary regular instruction	9,594,483	288,932	1,039,220	-	(8,266,331)
Vocational education instruction	409,140	-	17,325	-	(391,815)
Special education instruction	4,097,767	562	1,900,463	-	(2,196,742)
Instructional support services	802,957	33,921	-	-	(769,036)
Pupil support services	1,671,862	-	18,284	-	(1,653,578)
Sites and buildings	3,451,029	-	-	260,657	(3,190,372)
Fiscal and other fixed cost programs	84,676	-	-	-	(84,676)
Food service	799,324	456,859	328,462	-	(14,003)
Community education and services	1,453,663	816,314	320,009	-	(317,340)
Interest and fiscal charges on long-term debt	1,096,663	-	-	-	(1,096,663)
Total governmental activities	<u>\$ 25,238,153</u>	<u>\$ 1,596,588</u>	<u>\$ 3,623,763</u>	<u>\$ 260,657</u>	(19,757,145)
General revenues					
Taxes					
Property taxes, levied for general purposes					1,540,337
Property taxes, levied for community service					242,602
Property taxes, levied for debt service					4,446,978
State aid-formula grants					11,782,729
Other general revenues					53,280
Investment income					92,170
Total general revenues					<u>18,158,096</u>
Change in net position					(1,599,049)
Net position - beginning					<u>2,225,861</u>
Net position - ending					<u>\$ 626,812</u>

Independent School District No. 111
Watertown, Minnesota
Balance Sheet - Governmental Funds
June 30, 2017

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 2,448,126	\$ 2,786,510	\$ 443,403	\$ 5,678,039
Current property taxes receivable	870,220	2,500,425	160,647	3,531,292
Delinquent property taxes receivable	36,235	99,825	5,827	141,887
Accounts receivable	8,008	-	-	8,008
Due from Department of Education	763,178	29,251	17,335	809,764
Due from Federal Government through Department of Education	490,089	-	-	490,089
Due from other Minnesota school districts	15,770	-	8,789	24,559
Due from other governmental units	49,027	-	-	49,027
Inventory	876	-	27,259	28,135
Prepaid items	83,620	-	-	83,620
Total assets	<u>\$ 4,765,149</u>	<u>\$ 5,416,011</u>	<u>\$ 663,260</u>	<u>\$ 10,844,420</u>
Liabilities				
Accounts payable	\$ 110,520	\$ -	\$ 56,109	\$ 166,629
Salaries and benefits payable	1,135,341	-	49,528	1,184,869
Due to other Minnesota school districts	73,142	-	-	73,142
Due to other governmental units	45,337	-	388	45,725
Unearned revenue	-	-	20,089	20,089
Total liabilities	<u>1,364,340</u>	<u>-</u>	<u>126,114</u>	<u>1,490,454</u>
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	1,498,103	4,552,234	292,471	6,342,808
Unavailable revenue - delinquent property taxes	33,290	91,712	5,354	130,356
Total deferred inflows of resources	<u>1,531,393</u>	<u>4,643,946</u>	<u>297,825</u>	<u>6,473,164</u>
Fund Balances				
Nonspendable	84,496	-	27,259	111,755
Restricted	151,484	772,065	212,062	1,135,611
Assigned	2,251	-	-	2,251
Unassigned	1,631,185	-	-	1,631,185
Total fund balances	<u>1,869,416</u>	<u>772,065</u>	<u>239,321</u>	<u>2,880,802</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,765,149</u>	<u>\$ 5,416,011</u>	<u>\$ 663,260</u>	<u>\$ 10,844,420</u>

Independent School District No. 111
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2017

Total fund balances - governmental funds	\$ 2,880,802
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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	73,801,395
Less accumulated depreciation	(20,020,474)

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	(37,365,000)
Premium on bonds payable	(2,873,169)
Certificates of participation	(736,809)
Compensated absences	(177,599)
Net pension liability	(36,264,565)

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

Deferred inflows of resources related to pensions	22,306,422
Deferred outflows of resources related to pensions	(627,613)

Net OPEB assets created through employer contributions to defined benefit OPEB plans are not recognized in the governmental funds.

59,137

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.

130,356

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

(486,071)

Total net position - governmental activities

\$ 626,812

Independent School District No. 111
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Local property taxes	\$ 1,520,362	\$ 4,478,048	\$ 243,296	\$ 6,241,706
Other local and county revenues	730,474	67,706	859,377	1,657,557
Revenue from state sources	13,471,058	310,377	322,896	14,104,331
Revenue from federal sources	493,264	-	282,512	775,776
Sales and other conversion of assets	(1,940)	-	456,859	454,919
Total revenues	<u>16,213,218</u>	<u>4,856,131</u>	<u>2,164,940</u>	<u>23,234,289</u>
Expenditures				
Current				
Administration	871,360	-	-	871,360
District support services	505,534	-	-	505,534
Elementary and secondary regular instruction	6,750,638	-	-	6,750,638
Vocational education instruction	276,267	-	-	276,267
Special education instruction	3,071,001	-	-	3,071,001
Instructional support services	592,047	-	-	592,047
Pupil support services	1,464,100	-	73,369	1,537,469
Sites and buildings	1,880,783	-	-	1,880,783
Fiscal and other fixed cost programs	84,676	-	-	84,676
Food service	-	-	774,290	774,290
Community education and services	-	-	1,253,391	1,253,391
Capital outlay				
District support services	23,785	-	-	23,785
Elementary and secondary regular instruction	14,996	-	-	14,996
Special education instruction	14,078	-	-	14,078
Instructional support services	51,583	-	-	51,583
Pupil support services	29,648	-	-	29,648
Food service	-	-	2,939	2,939
Community education and services	-	-	5,213	5,213
Debt service				
Principal	75,867	11,735,000	-	11,810,867
Interest and fiscal charges	31,458	1,682,236	-	1,713,694
Total expenditures	<u>15,737,821</u>	<u>13,417,236</u>	<u>2,109,202</u>	<u>31,264,259</u>
Excess of revenues over (under) expenditures	475,397	(8,561,105)	55,738	(8,029,970)
Fund Balances				
Beginning of year	<u>1,394,019</u>	<u>9,333,170</u>	<u>183,583</u>	<u>10,910,772</u>
End of year	<u>\$ 1,869,416</u>	<u>\$ 772,065</u>	<u>\$ 239,321</u>	<u>\$ 2,880,802</u>

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, 2017

Net change in fund balances - total governmental funds	\$ (8,029,970)
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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	44,754
Depreciation expense	(1,597,247)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(4,929)
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Net OPEB are recognized as paid in the governmental funds, but recognized as the expense is incurred.	(47,800)
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Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	11,810,867
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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.	369,481
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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.	(4,379,966)
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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.	(11,789)
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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.	247,550
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Change in net position - governmental activities	\$ (1,599,049)
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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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
Revenues				
Local property taxes	\$ 1,513,886	\$ 1,525,135	\$ 1,520,362	\$ (4,773)
Other local and county revenues	488,500	575,745	730,474	154,729
Revenue from state sources	13,229,063	13,450,713	13,471,058	20,345
Revenue from federal sources	456,506	528,420	493,264	(35,156)
Sales and other conversion of assets	24,555	24,555	(1,940)	(26,495)
Total revenues	<u>15,712,510</u>	<u>16,104,568</u>	<u>16,213,218</u>	<u>108,650</u>
Expenditures				
Current				
Administration	882,864	887,813	871,360	(16,453)
District support services	512,605	511,480	505,534	(5,946)
Elementary and secondary regular instruction	6,744,852	6,744,328	6,750,638	6,310
Vocational education instruction	271,084	271,084	276,267	5,183
Special education instruction	2,958,813	3,127,896	3,071,001	(56,895)
Instructional support services	627,089	646,502	592,047	(54,455)
Pupil support services	1,502,220	1,513,425	1,464,100	(49,325)
Sites and buildings	1,873,876	2,035,296	1,880,783	(154,513)
Fiscal and other fixed cost programs	93,500	85,000	84,676	(324)
Capital outlay				
District support services	9,000	8,325	23,785	15,460
Elementary and secondary regular instruction	21,500	18,500	14,996	(3,504)
Special education instruction	2,400	2,400	14,078	11,678
Instructional support services	75,000	75,000	51,583	(23,417)
Pupil support services	-	-	29,648	29,648
Debt service				
Principal	75,867	75,867	75,867	-
Interest and fiscal charges	31,458	31,458	31,458	-
Total expenditures	<u>15,682,128</u>	<u>16,034,374</u>	<u>15,737,821</u>	<u>(296,553)</u>
Excess of revenues over expenditures	30,382	70,194	475,397	405,203
Other Financing Uses				
Transfers out	<u>(150,000)</u>	<u>(30,000)</u>	<u>-</u>	<u>30,000</u>
Net change in fund balance	<u>\$ (119,618)</u>	<u>\$ 40,194</u>	<u>475,397</u>	<u>\$ 435,203</u>
Fund Balance				
Beginning of year			<u>1,394,019</u>	
End of year			<u>\$ 1,869,416</u>	

Independent School District No. 111
Statement of Fiduciary Net Position
June 30, 2017

	Private Purpose Trust Fund	Agency Funds
Assets		
Cash and investments	\$ 87,998	\$ 2,882
Liabilities		
Due to others	\$ -	\$ 2,882
Net Position		
Held in trust for scholarships	87,998	-
Total liabilities and net position	\$ 87,998	\$ 2,882

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

	Private Purpose Trust Fund
Additions	
Contributions	\$ 37,529
Interest revenue	121
Total additions	37,650
Deductions	
Scholarship	26,722
Change in net position	10,928
Net Position	
Beginning of year	77,070
End of year	\$ 87,998

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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 – Debt Service 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, 2017, 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 2016, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2017. 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 estimated fair market 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 one item that qualifies for reporting in this category. Deferred outflows of resources related to pensions 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.

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, 2017, 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, 2017.

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, 2017, the District deposits were not exposed to custodial credit risk.

As of June 30, 2017, the District had the following deposits:

Checking	\$ 398,462
Certificate of deposit	<u>994,307</u>
Total	<u><u>\$ 1,392,769</u></u>

Independent School District No. 111
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

As of June 30, 2017, the District had the following investments:

Investment Type	Investment Maturity (In Years)			Moody's Rating
	Fair Value	Less Than 1 Year	1 to 3 Years	
MN Trust Investment Shares Portfolio	\$ 2,081,013	\$ 2,081,013	\$ -	AAA
MN Trust Term Series	1,300,000	1,300,000	-	AAA
Bank United, NA CD	248,088	-	248,088	N/A
Wells Fargo Bank, NA CD	249,266	-	249,266	N/A
Synovus Bank CD	248,084	-	248,084	N/A
F&M Bank CD	248,699	-	248,699	N/A
Total	<u>\$ 4,375,150</u>	<u>\$ 3,381,013</u>	<u>\$ 994,137</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 was 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, 2017:

- \$994,137 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 (Note 3. A.)	1,392,769
Investments	<u>4,375,150</u>
Total deposits and investments	<u>\$ 5,768,919</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, 2017, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 5,678,039
Statement of Fiduciary Net Position	
Private Purpose Trust Fund - cash and investments	87,998
Agency Funds - cash investments	<u>2,882</u>
Total deposits and investments	<u><u>\$ 5,768,919</u></u>

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	<u>\$ 26,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,700</u>
Capital assets being depreciated				
Land improvements	414,769	-	-	414,769
Buildings	71,284,843	-	-	71,284,843
Equipment	<u>2,030,329</u>	<u>44,754</u>	<u>-</u>	<u>2,075,083</u>
Total capital assets being depreciated	<u>73,729,941</u>	<u>44,754</u>	<u>-</u>	<u>73,774,695</u>
Less accumulated depreciation for				
Land improvements	374,837	12,812	-	387,649
Buildings	16,530,015	1,499,300	-	18,029,315
Equipment	<u>1,518,375</u>	<u>85,135</u>	<u>-</u>	<u>1,603,510</u>
Total accumulated depreciation	<u>18,423,227</u>	<u>1,597,247</u>	<u>-</u>	<u>20,020,474</u>
Total capital assets being depreciated, net	<u>55,306,714</u>	<u>(1,552,493)</u>	<u>-</u>	<u>53,754,221</u>
Governmental activities, capital assets, net	<u><u>\$ 55,333,414</u></u>	<u><u>\$ (1,552,493)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 53,780,921</u></u>

Independent School District No. 111
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2017, was charged to the following governmental functions:

Administration	\$ 690
District support services	471
Elementary and secondary regular instruction	20,565
Special education instruction	3,307
Instructional support services	21,690
Pupil support services	1,853
Sites and buildings	1,537,209
Food service	8,947
Community service	<u>2,515</u>
Total depreciation expense	<u><u>\$ 1,597,247</u></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						
2012A G.O. Equipment Certificates of Indebtedness	06/20/12	3.0%	1,210,000	02/01/18	255,000	255,000
2012B G.O. School Building Bonds	09/15/12	3.0%-4.0%	25,930,000	02/01/26	22,350,000	2,080,000
2013A G.O. Alternative Facilities Bonds	04/30/13	.04%-3.0%	3,175,000	02/01/33	2,635,000	100,000
2015A G.O. School Building Refunding Bonds	11/24/15	3.0%	5,055,000	02/01/22	4,010,000	1,135,000
2015B G.O. School Building Refunding Bonds	11/24/15	2.0%-4.0%	8,115,000	02/01/26	8,115,000	-
Unamortized premium on bonds					<u>2,873,169</u>	<u>-</u>
Total G.O. bonds, net of premium					<u>40,238,169</u>	<u>3,570,000</u>
Certificates of participation	07/09/10	4.04%	1,262,512	02/07/24	736,809	83,908
Compensated absences payable					<u>177,599</u>	<u>79,409</u>
Total all long-term liabilities					<u><u>\$ 41,152,577</u></u>	<u><u>\$ 3,733,317</u></u>

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
2018	\$ 3,570,000	\$ 1,178,312	\$ 4,748,312
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
2023-2027	17,450,000	1,434,004	18,884,004
2028-2032	1,235,000	138,914	1,373,914
2033	270,000	8,100	278,100
Total	<u>\$ 37,365,000</u>	<u>\$ 6,274,988</u>	<u>\$ 43,639,988</u>

Year Ending June 30,	Certificates of Participation		
	Principal	Interest	Total
2018	\$ 83,908	\$ 28,246	\$ 112,154
2019	92,500	24,701	117,201
2020	101,683	20,792	122,475
2021	111,481	16,506	127,986
2022	121,935	11,811	133,746
2023-2024	225,303	7,978	233,281
Total	<u>\$ 736,809</u>	<u>\$ 110,034</u>	<u>\$ 846,843</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. school bonds	\$ 49,100,000	\$ -	\$ 11,735,000	\$ 37,365,000
Certificates of participation	812,676	-	75,867	736,809
Premium on bonds	3,242,650	-	369,481	2,873,169
Compensated absences payable	172,670	92,107	87,178	177,599
Total long-term liabilities	<u>\$ 53,327,996</u>	<u>\$ 92,107</u>	<u>\$ 12,267,526</u>	<u>\$ 41,152,577</u>

The General Fund typically liquidates the liability related to compensated absences.

Independent School District No. 111
Notes to Financial Statements

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Descriptions of Long-Term Liabilities

In November 2015, the District issued \$8,115,000 G.O. School Building Refund Bonds, Series 2015B for the crossover refunding of \$8,385,000 of the G.O. School Building Bonds, Series 2007A. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of \$1,018,115. The net present value cash flow savings from the transaction was \$938,015. The 2007A item was called February 1, 2017.

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	\$ 876	\$ -	\$ 27,259	\$ 28,135
Prepaid Items	83,620	-	-	83,620
Total nonspendable	<u>84,496</u>	<u>-</u>	<u>27,259</u>	<u>111,755</u>
Restricted/reserved for				
Staff Development	1,220	-	-	1,220
LTFM	21,831	-	-	21,831
Medical Assistance	128,433	-	-	128,433
Debt Service	-	772,065	-	772,065
Food Service	-	-	34,457	34,457
Community Education	-	-	137,216	137,216
Early Childhood Family Education	-	-	17,752	17,752
School Readiness	-	-	12,847	12,847
Community Service	-	-	9,790	9,790
Total restricted/reserved	<u>151,484</u>	<u>772,065</u>	<u>212,062</u>	<u>1,135,611</u>
Assigned for				
HRA Rollovers	<u>2,251</u>	<u>-</u>	<u>-</u>	<u>2,251</u>
Unassigned	<u>1,631,185</u>	<u>-</u>	<u>-</u>	<u>1,631,185</u>
Total fund balance	<u>\$ 1,869,416</u>	<u>\$ 772,065</u>	<u>\$ 239,321</u>	<u>\$ 2,880,802</u>

Independent School District No. 111
Notes to Financial Statements

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

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

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

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 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

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service, and Debt Service Funds adjusted to full accrual.

Independent School District No. 111
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2017, was \$5,592,530.

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.

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 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years 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

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)

With these provisions:

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

Tier II Benefits

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

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

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

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.

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

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2015, June 30, 2016, and June 30, 2017, were:

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

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.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 354,961,140
Add Employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total non-employer contributions	<u>35,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 390,131,928</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, 2016, 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, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
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 set 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 Allocation	Long -Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
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.

E. Discount Rate

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

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

On June 30, 2017, the District reported a liability of \$32,773,178 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1374% at the end of the measurement period and 0.1364% 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	\$ 32,773,178
State's proportionate share of the net pension liability associated with the District	3,289,760

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

For the year ended June 30, 2017, the District recognized pension expense of \$5,229,836. It recognized \$459,361 as an increase to pension expense for the support provided by direct aid.

On June 30, 2017, 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	\$ 338,384	\$ 915
Net difference between projected and actual earnings on plan investments	1,358,140	-
Changes in assumptions	18,684,763	-
Changes in proportion	51,550	130,276
District's contributions to TRA subsequent to the measurement date	534,042	-
Total	<u>\$ 20,966,879</u>	<u>\$ 131,191</u>

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)

\$534,042 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018	\$ 3,987,621
2019	3,987,622
2020	4,490,269
2021	4,191,358
2022	<u>3,644,776</u>
Total	<u>\$ 20,301,646</u>

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1 percent lower and 1 percent higher.

District proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
<u> </u>	<u> </u>	<u> </u>
\$ 42,220,045	\$ 32,773,178	\$ 25,079,013

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 (Continued)

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 plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (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.

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

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

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.

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 2017. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were \$205,552. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2017, the District reported a liability of \$3,491,387 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 \$6 million to the fund in 2016. 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 \$45,639. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0430%, which was an decrease of 0.0031% from its proportion measured as of June 30, 2015.

Independent School District No. 111
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$362,694 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$13,608 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At June 30, 2017, the District reported its proportionate share of GERP'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	\$ 11,968	\$ 289,023
Changes in actuarial assumptions	763,981	-
Difference between projected and actual investment earnings	358,042	-
Change in proportion	-	207,399
District's contributions to PERA subsequent to the measurement date	205,552	-
Total	<u>\$ 1,339,543</u>	<u>\$ 496,422</u>

\$205,552 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2018	\$ 151,497
2019	59,165
2020	300,794
2021	126,113
Total	<u>\$ 637,569</u>

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

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, 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. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

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

The following changes in actuarial assumptions occurred in 2016:

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness 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.

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 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	45%	5.50%
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	<u><u>100%</u></u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position 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.

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 <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase in Discount Rate <u>(8.5%)</u>
District's proportionate share of the PERA net pension liability	\$ 4,958,804	\$ 3,491,387	\$ 2,282,634

Independent School District No. 111
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

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.

B. Funding Policy

Employer contribution requirements are established and may be amended as set forth in the applicable employment and bargaining unit agreements. As of July 1, 2016, the date of the latest actuarial valuation, approximately 11 retirees and their dependents were receiving postemployment health and an estimated 226 active employees are eligible to receive future benefits under the plan. For fiscal year 2017, the District contributed \$55,459 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

Independent School District No. 111's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

ARC	\$ 101,091
Interest on net OPEB obligation	(3,208)
Amortization of net OPEB interest	5,376
Annual OPEB cost (expense)	<u>103,259</u>
Contributions made	<u>(55,459)</u>
Increase in net OPEB obligation	47,800
Net OPEB obligation - beginning of year	<u>(106,937)</u>
Net OPEB obligation - end of year	<u><u>\$ (59,137)</u></u>

Independent School District No. 111
Notes to Financial Statements

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual Other Post Employment Benefits Cost and Net Other Post Employment Benefits Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017, 2016, and 2015 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/15	\$ 107,229	\$ 92,932	87%	\$ (122,849)
06/30/16	106,776	90,864	85%	(106,937)
06/30/17	103,259	55,459	54%	(59,137)

D. Funded Status and Funding Progress

As of July, 1, 2016, the actuarial accrued liability and the unfunded actuarial accrued liability (UAAL) for benefits was \$824,995. The actuarial value of plan assets was \$0. The covered payroll (annual payroll of active employees covered by the plan) was \$9,258,154, and the ratio of the UAAL to the covered payroll was 8.9%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

In the July 1, 2016, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 3 percent, inflation rate of 2.5 percent, health care trend rates ranging from 6.75 percent initially, reduced by decrements to an ultimate rate of 5% after seven years. The UAAL is being amortized on a closed basis as a level dollar amount over 23 to 30 years.

Independent School District No. 111
Notes to Financial Statements

NOTE 8 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB Statement No. 75, *Accounting and financial Reporting for Postemployment Benefits other than Pensions*. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 111
Watertown-Mayer Schools
Schedule of Funding Progress - Other Post Employment Benefits
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/12	-	1,031,393	1,031,393	0.0%	8,133,743	12.7%
07/01/14	-	864,247	864,247	0.0%	9,195,454	9.4%
07/01/16	-	824,995	824,995	0.0%	9,258,154	8.9%

* See Note 7 in the notes to financial statements for more details on this Schedule.

Independent School District No. 111
Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability - General Employees Retirement Funds
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 Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0498%	\$ 2,339,355	\$ -	\$ 2,339,355	\$ 2,615,489	89.44%	78.7%
2015	0.0461%	2,389,141	-	2,389,141	2,662,267	89.74%	78.2%
2016	0.0430%	3,491,387	45,639	3,537,026	2,667,667	130.88%	68.9%

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 Funds
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 Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1450%	\$ 6,681,496	\$ 470,033	\$ 7,151,529	\$ 6,617,287	101.0%	81.5%
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%

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***

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
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	205,552	205,552	-	2,740,693	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 Funds
Last Ten Years***

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
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	534,042	534,042	-	7,120,560	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

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 6 years and female rates set back 5 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 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

General Employees Fund

2016 Changes

Changes in Actuarial Assumptions

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

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

General Employees Fund (Continued)

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

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

SUPPLEMENTARY INFORMATION

Independent School District No. 111
Watertown, Minnesota
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and investments	\$ 103,497	\$ 339,906	\$ 443,403
Current property taxes receivable	-	160,647	160,647
Delinquent property taxes receivable	-	5,827	5,827
Due from Department of Education	-	17,335	17,335
Due from other Minnesota school districts	-	8,789	8,789
Inventory	27,259	-	27,259
Total assets	<u>\$ 130,756</u>	<u>\$ 532,504</u>	<u>\$ 663,260</u>
Liabilities			
Accounts payable	\$ 48,563	\$ 7,546	\$ 56,109
Salaries and benefits payable	-	49,528	49,528
Due to other governmental units	388	-	388
Unearned revenue	20,089	-	20,089
Total liabilities	<u>69,040</u>	<u>57,074</u>	<u>126,114</u>
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	292,471	292,471
Unavailable revenue - delinquent property taxes	-	5,354	5,354
Total deferred inflows of resources	<u>-</u>	<u>297,825</u>	<u>297,825</u>
Fund Balances			
Nonspendable	27,259	-	27,259
Restricted	34,457	177,605	212,062
Total fund balances	<u>61,716</u>	<u>177,605</u>	<u>239,321</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 130,756</u>	<u>\$ 532,504</u>	<u>\$ 663,260</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, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenues			
Local property taxes	\$ -	\$ 243,296	\$ 243,296
Other local and county revenues	-	859,377	859,377
Revenue from state sources	46,781	276,115	322,896
Revenue from federal sources	281,681	831	282,512
Sales and other conversion of assets	456,859	-	456,859
Total revenues	<u>785,321</u>	<u>1,379,619</u>	<u>2,164,940</u>
Expenditures			
Current			
Pupil support services	-	73,369	73,369
Food service	774,290	-	774,290
Community education and services	-	1,253,391	1,253,391
Capital outlay			
Food service	2,939	-	2,939
Community education and services	-	5,213	5,213
Total expenditures	<u>777,229</u>	<u>1,331,973</u>	<u>2,109,202</u>
Net change in fund balances	8,092	47,646	55,738
Fund Balances			
Beginning of year	<u>53,624</u>	<u>129,959</u>	<u>183,583</u>
End of year	<u>\$ 61,716</u>	<u>\$ 177,605</u>	<u>\$ 239,321</u>

Independent School District No. 111
Uniform Financial Accounting And Reporting Standards
Compliance Table
Year Ended June 30, 2017

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 16,213,218	\$ 16,213,221	\$ (3)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	15,737,821	15,737,823	(2)	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	84,496	84,495	1	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	-	-	-				
424 Operating Capital	-	-	-	07 Debt Service Fund			
426 \$25 Taconite	-	-	-	Total revenue	\$ 4,856,131	\$ 4,856,131	\$ -
427 Disabled Accessibility	-	-	-	Total expenditures	13,417,236	13,417,236	-
428 Learning and Development	-	-	-	<i>Nonspendable:</i>			
434 Area Learning Center	-	-	-	460 Nonspendable fund balance	-	-	-
435 Contracted Alternative Programs	-	-	-	<i>Restricted/Reserved:</i>			
436 State Approved Alternative Program	-	-	-	425 Bond refundings	-	-	-
438 Gifted and Talented	-	-	-	451 QZAB and QSCB payments	-	-	-
440 Teacher Development and Evaluation	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted fund balance	772,065	772,065	-
445 Career Technical Programs	-	-	-	<i>Unassigned:</i>			
448 Achievement and Integration	-	-	-	463 Unassigned fund balance	-	-	-
449 Safe School Crime	-	-	-				
450 Transition for Pre-Kindergarten	-	-	-	08 Trust Fund			
451 QZAB and QSCB Payments	-	-	-	Total revenue	\$ 37,650	\$ 37,651	\$ (1)
452 OPEB Liabilities not Held in Trust	-	-	-	Total expenditures	26,722	26,722	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
467 Long-term Facilities Maintenance	21,831	21,831	-	422 Unassigned fund balance (net position)	87,998	87,998	-
472 Medical Assistance	128,433	128,433	-				
<i>Restricted:</i>				20 Internal Service Fund			
464 Restricted fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Committed:</i>				Total expenditures	-	-	-
418 Committed for separation	-	-	-	<i>Unassigned:</i>			
461 Committed	-	-	-	422 Unassigned fund balance (net position)	-	-	-
<i>Assigned:</i>							
462 Assigned fund balance	2,251	2,251	-	25 OPEB Revocable Trust			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
422 Unassigned fund balance	1,631,185	1,631,185	-	Total expenditures	-	-	-
				<i>Unassigned:</i>			
				422 Unassigned fund balance (net position)	-	-	-
02 Food Services Fund							
Total revenue	\$ 785,321	\$ 785,323	\$ (2)	45 OPEB Irrevocable Trust			
Total expenditures	777,229	777,231	(2)	Total revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total expenditures	-	-	-
460 Nonspendable fund balance	27,259	27,259	-	<i>Unassigned:</i>			
<i>Restricted/reserved:</i>				422 Unassigned fund balance (net position)	-	-	-
452 OPEB liabilities not held in trust	-	-	-				
<i>Restricted:</i>				47 OPEB Debt Service			
464 Restricted fund balance	34,457	34,457	-	Total revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total expenditures	-	-	-
463 Unassigned fund balance	-	-	-	<i>Nonspendable:</i>			
				460 Nonspendable fund balance	-	-	-
04 Community Service Fund				<i>Restricted:</i>			
Total revenue	\$ 1,379,619	\$ 1,379,620	\$ (1)	425 Bond refundings	-	-	-
Total expenditures	1,331,973	1,331,974	(1)	464 Restricted fund balance	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable fund balance	-	-	-	463 Unassigned fund balance	-	-	-
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	137,216	137,216	-				
432 ECFE	17,752	17,752	-				
440 Teacher Development and Evaluation	-	-	-				
444 School Readiness	12,847	12,847	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	9,790	9,790	-				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

Independent School District No. 111
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

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	251,481
School Breakfast	10.553	31,031
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>282,512</u>
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A	84.010	116,672
Title II, Part A - Improving Teacher Quality	84.367	36,284
Handicapped Early Education	84.173	6,971
IDEA, Part B	84.027	306,606
Special Education Cluster		<u>313,577</u>
IDEA, Part C - Infants and Toddlers	84.181	15,095
Through Carver-Scott Special Education Cooperative		
Carl Perkins	84.048A	11,635
Total U.S. Department of Education		<u>493,263</u>
Total Federal Expenditures		<u><u>\$ 775,775</u></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, 2017, 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, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 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 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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be significant deficiencies as audit findings 2015-002 and 2016-001.

Compliance and Other Matters

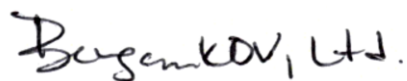
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



St. Cloud, Minnesota
October 30, 2017

**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 OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost 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, 2017.

Report on Internal Control over Compliance

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

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

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

St. Cloud, Minnesota
October 30, 2017

**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 2015-002 and 2016-001
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:	10.553, 10.555
Name of Federal Program or Cluster:	Child Nutrition 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 2015-002 – Preparation of Financial Statements

Criteria or Specific Requirement:

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.

Condition:

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

Context:

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.

Effect:

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, in a timely manner.

Cause:

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

Recommendation:

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.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Administration will review current processes and related internal controls to determine if training could be provided to current employees to prepare the financial statements.

3. Official Responsible for Ensuring CAP

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

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.

Audit Finding 2016-001 – 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

None

Report on Legal Compliance

Independent Auditor's Report

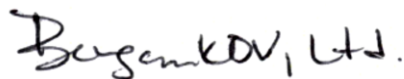
To the School Board
Independent School District No. 111
Watertown-Mayer Schools
Watertown, Minnesota

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, 2017, and the related notes to financial statements, and have issued our report thereon dated October 30, 2017.

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, 2017