

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

**Communications Letter**

**June 30, 2016**



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

**BerganKDV, Ltd.**

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Watertown-Mayer Schools  
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In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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. The significant deficiencies identified are stated within this letter.



The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 24, 2016, on such statements.

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

*BerganKDV, Ltd.*

St. Cloud, Minnesota  
October 24, 2016



**Independent School District No. 111**  
**Watertown-Mayer Schools**  
**Significant Deficiencies**

**LACK OF SEGREGATION OF ACCOUNTING DUTIES**

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

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

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

**PREPARATION OF FINANCIAL STATEMENTS AND RELATED NOTE DISCLOSURES**

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2016. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, AND *GOVERNMENT AUDITING STANDARDS***

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

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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

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

**PLANNED SCOPE AND TIMING OF THE AUDIT**

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

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

**PLANNED SCOPE AND TIMING OF THE AUDIT (CONTINUED)**

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

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

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

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

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

Other Post-Employment Benefits (OPEB) Obligations – This balance is based on an actuarial study using the estimates of future obligations of the District for pension and other post-employment benefits.

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

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

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)**

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

The financial statements disclosures are neutral, consistent, and clear.

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- State revenue and receivable
- Deferred inflows of resources related to delinquent property taxes and property tax revenue

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**MANAGEMENT REPRESENTATIONS**

We requested certain representations from management that are included in the management representation letter.

**MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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

**OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER MATTERS**

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

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

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

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

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

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

Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
2005	\$ 4,601	0.0%
2006	4,782	4.0%
2007	4,974	4.0%
2008	5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%

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

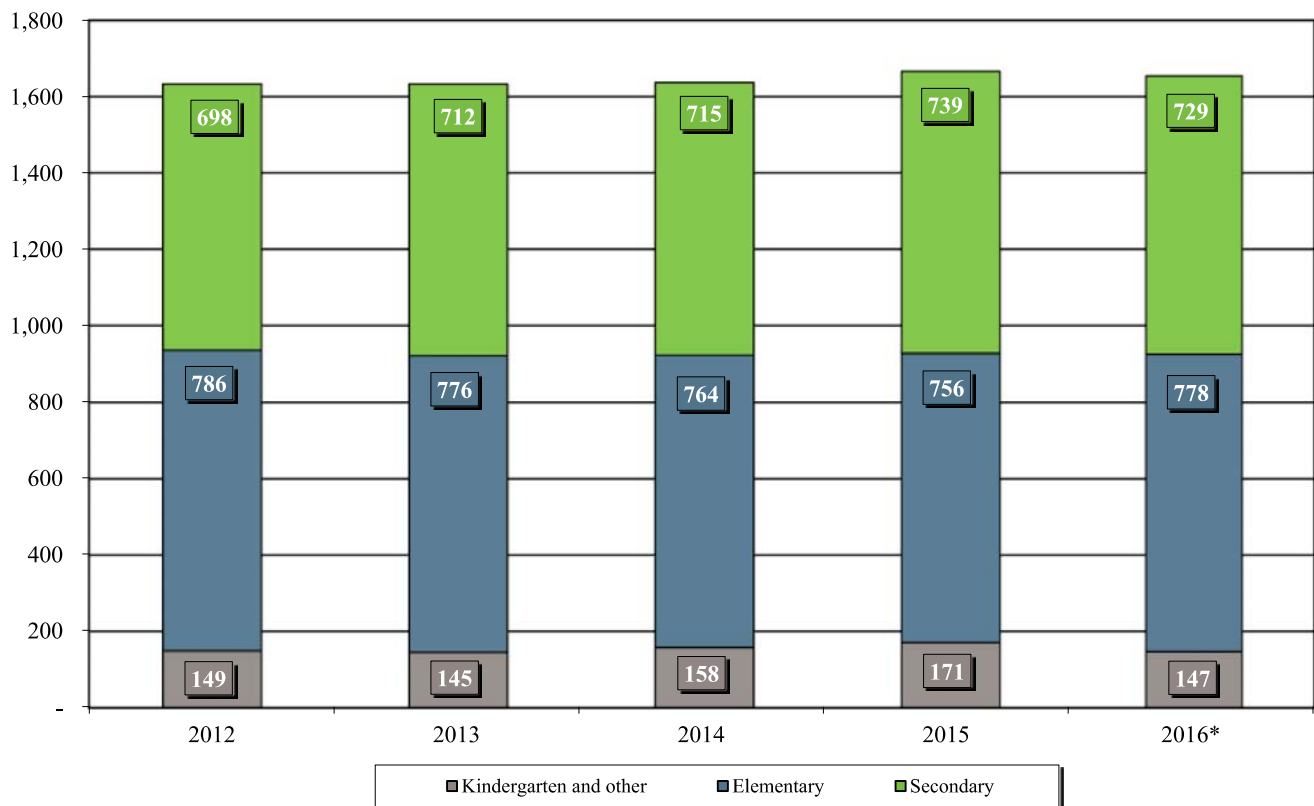
**Independent School District No. 111  
Watertown-Mayer Schools  
Financial Analysis**

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)**

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

<b>Resident ADM</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016*</b>
Kindergarten and other	149	145	158	171	147
Elementary	786	776	764	756	778
Secondary	698	712	715	739	729
<b>Total</b>	<b>1,633</b>	<b>1,633</b>	<b>1,637</b>	<b>1,666</b>	<b>1,654</b>

**Resident (Average Daily Membership)**



\* Estimate

Resident ADM has increased 1.3%, or 21 pupils, over the last five years. Also, Resident ADM decreased 0.7%, or 12, from 2015 and 2016.

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

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)**

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

	Pre-Kindergarten	Kindergarten Disabled	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
2012-2014	1.250	1.000	0.612	1.115	1.060	1.300
2015-2016	1.000	1.000	1.000	1.000	1.000	1.200

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

<b>WADM/PUN Served</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016*</b>
Residents	1,874	1,880	1,880	1,814	1,800
Resident WADM/PUN going elsewhere	(313)	(321)	(346)	(357)	(379)
Total residents served	1,561	1,559	1,534	1,457	1,421
Total nonresidents	245	280	267	264	287
<b>Total WADM/PUN served</b>	<b>1,806</b>	<b>1,839</b>	<b>1,801</b>	<b>1,721</b>	<b>1,708</b>

For 2015, the Minnesota Department of Education (MDE) simplified the weighting factors for converting ADM to weighed amounts on which the basic formula portion of general education aid is based. The weighed amounts are now titled pupil unit numbers (PUN) and were previously referred to as weighted average daily membership (WADM). As mentioned on page 8, because of the simplified weighting changes, districts' weighted pupil counts across the state decreased, so MDE increased the basic formula allowance dollar amount in an effort to hold districts harmless. We see a decrease in the 2015 PUN in the chart above as a result of this change to 1,721 PUN for 2015. If weightings had not changed, the District would have shown an increase to 1,816 PUN. For 2016, PUN decreased 13 to 1,708.

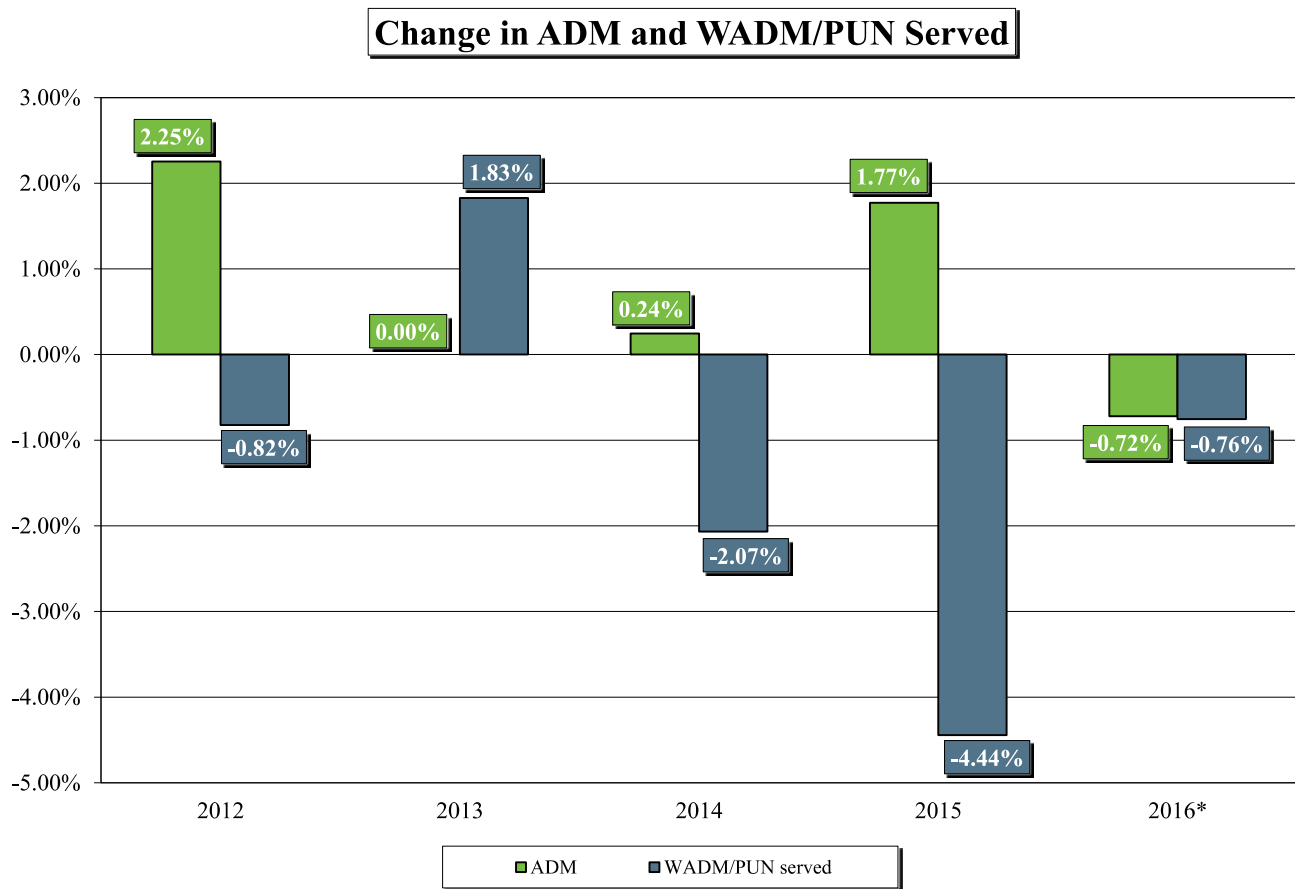


**Independent School District No. 111  
Watertown-Mayer Schools  
Financial Analysis**

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)**

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

Change in Average Daily Membership and WADMs Served					
	2012	2013	2014	2015	2016*
ADM	2.25%	0.00%	0.24%	1.77%	-0.72%
WADM/PUN served	-0.82%	1.83%	-2.07%	-4.44%	-0.76%



\* Estimate

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

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

**REVENUES AND EXPENDITURES PER ADM SERVED**

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

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

<b>ISD No. 111</b>						
<b>General Fund</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016*</b>	
Property taxes	\$ 953	\$ 880	\$ 483	\$ 762	\$ 874	
State aid	6,993	7,467	8,245	8,335	8,454	
Other	969	854	930	778	694	
<b>Total General Fund Revenue</b>	<b>\$ 8,915</b>	<b>\$ 9,201</b>	<b>\$ 9,658</b>	<b>\$ 9,875</b>	<b>\$ 10,022</b>	
<b>Districts with 1,000-1,999 ADM**</b>						
Property taxes	\$ 857	\$ 912	\$ 530	\$ 865	N/A	
State aid	7,822	8,002	8,648	8,823	N/A	
Other local sources	1,120	1,064	1,081	1,182	N/A	
<b>Total general fund revenue</b>	<b>\$ 9,799</b>	<b>\$ 9,978</b>	<b>\$ 10,259</b>	<b>\$ 10,869</b>	<b>N/A</b>	
<b>State-Wide**</b>						
Property taxes	\$ 1,478	\$ 1,608	\$ 923	\$ 1,564	N/A	
State aid	8,033	8,234	9,136	9,114	N/A	
Other local sources	1,034	856	941	936	N/A	
<b>Total general fund revenue</b>	<b>\$ 10,545</b>	<b>\$ 10,698</b>	<b>\$ 11,000</b>	<b>\$ 11,614</b>	<b>N/A</b>	

Revenues per student for the General Fund increased 1.5% from 2015 to 2016 as students served decreased .5% and revenues increased 0.9%

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

<b>ISD No. 111</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016*</b>	
General fund	\$ 9,229	\$ 9,816	\$ 9,749	\$ 9,919	\$ 9,912	
General and special revenue	10,439	11,007	11,017	11,161	11,159	
<b>Districts with Enrollment of 1,000-1,999**</b>						
General fund	\$ 9,673	\$ 9,995	\$ 10,231	\$ 10,665	N/A	
General and special revenue	10,542	10,871	11,144	11,613	N/A	
<b>State Averages**</b>						
General fund	\$ 10,336	\$ 10,666	\$ 11,011	\$ 11,527	N/A	
General and special revenue	11,326	11,678	12,055	12,573	N/A	

\* Estimate

\*\* State average expenditures per ADM served for the 1,000 to 1,999 group for 2012-2015 as listed in the MDE publication *School District Profiles*. The 2016 information is not yet available.

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

**REVENUES AND EXPENDITURES PER ADM SERVED (CONTINUED)**

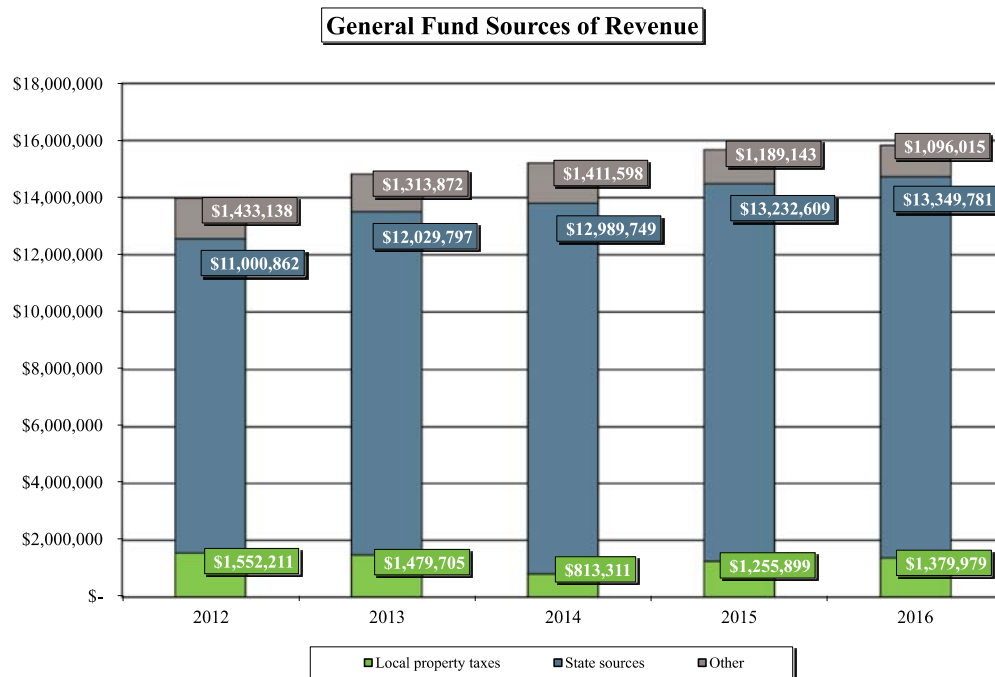
Expenditures per student served for the General Fund decreased 0.1% from 2015 to 2016 as students served decreased 0.5% and expenditures decreased 0.6%.

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

**GENERAL FUND SOURCES OF REVENUE**

General Fund sources of revenue are summarized as follows:

	2012	2013	2014	2015	2016
Local property taxes	\$ 1,552,211	\$ 1,479,705	\$ 813,311	\$ 1,255,899	\$ 1,379,979
State sources	11,000,862	12,029,797	12,989,749	13,232,609	13,349,781
Other	1,433,138	1,313,872	1,411,598	1,189,143	1,096,015
<b>Total</b>	<b>\$ 13,986,211</b>	<b>\$ 14,823,374</b>	<b>\$ 15,214,658</b>	<b>\$ 15,677,651</b>	<b>\$ 15,825,775</b>



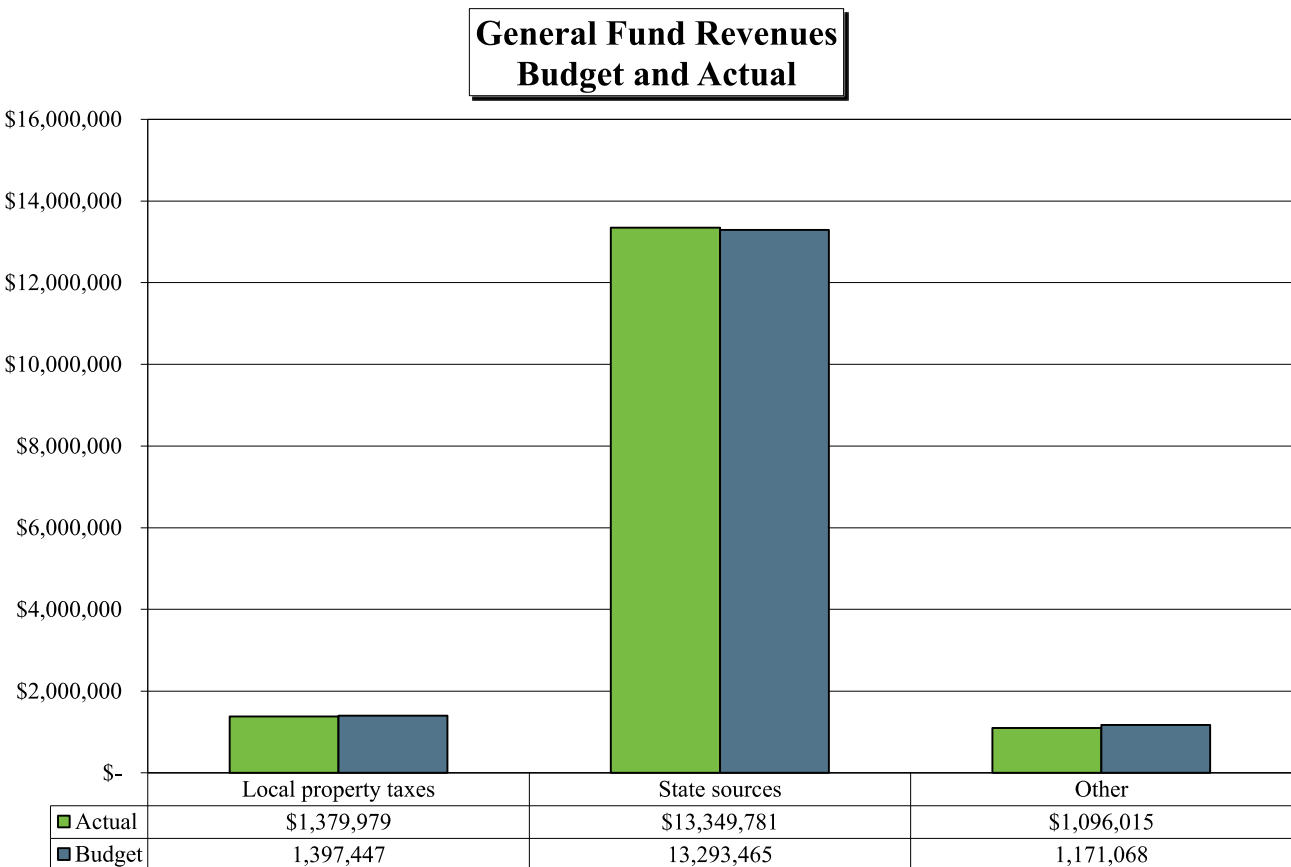
Total revenue increased \$148,124, or 0.9%, from 2015 to 2016. The most significant portion of the District's funding came from the state in the form of general education revenue. As previously explained, this funding is determined based on student enrollment. The most significant change in revenue sources from 2015 to 2016 was revenue from state sources, which increased \$117,172 due in part to an increase in the formula allowance. This increase was also due to revenue recorded in the General Fund for TRA state aid as a result of GASB 68. This state aid is an in-kind contribution and has a corresponding offsetting benefit expenditure also recorded in the General Fund. Revenue from local property taxes increased \$124,080 due to an increase in the general fund levy.

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

**GENERAL FUND BUDGETED AND ACTUAL REVENUES (CONTINUED)**

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

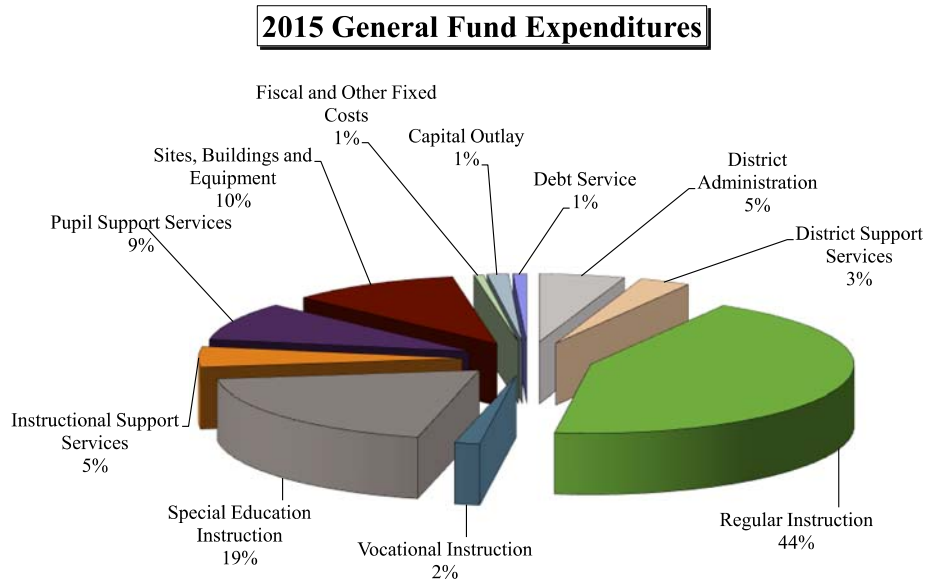
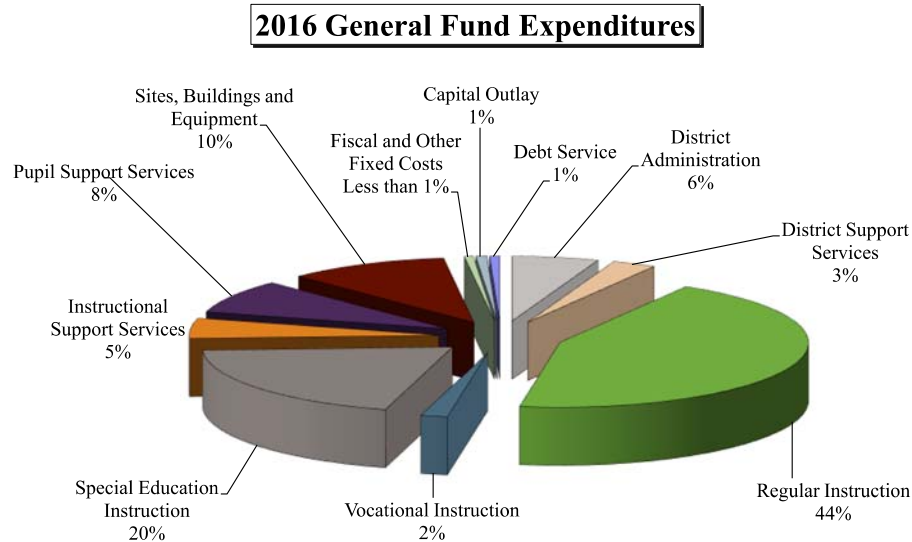
The District set an original and final revenue budget of \$15,861,980. Actual revenues of \$15,825,775 were under the final budget by \$36,205, or 0.2%.



State sources had the largest variance from budgeted amounts, coming in \$56,316 over budget. This is primarily due to recording TRA state aid in the general fund as a result of GASB 68, which was not included in the budget.

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

## **GENERAL FUND EXPENDITURES**



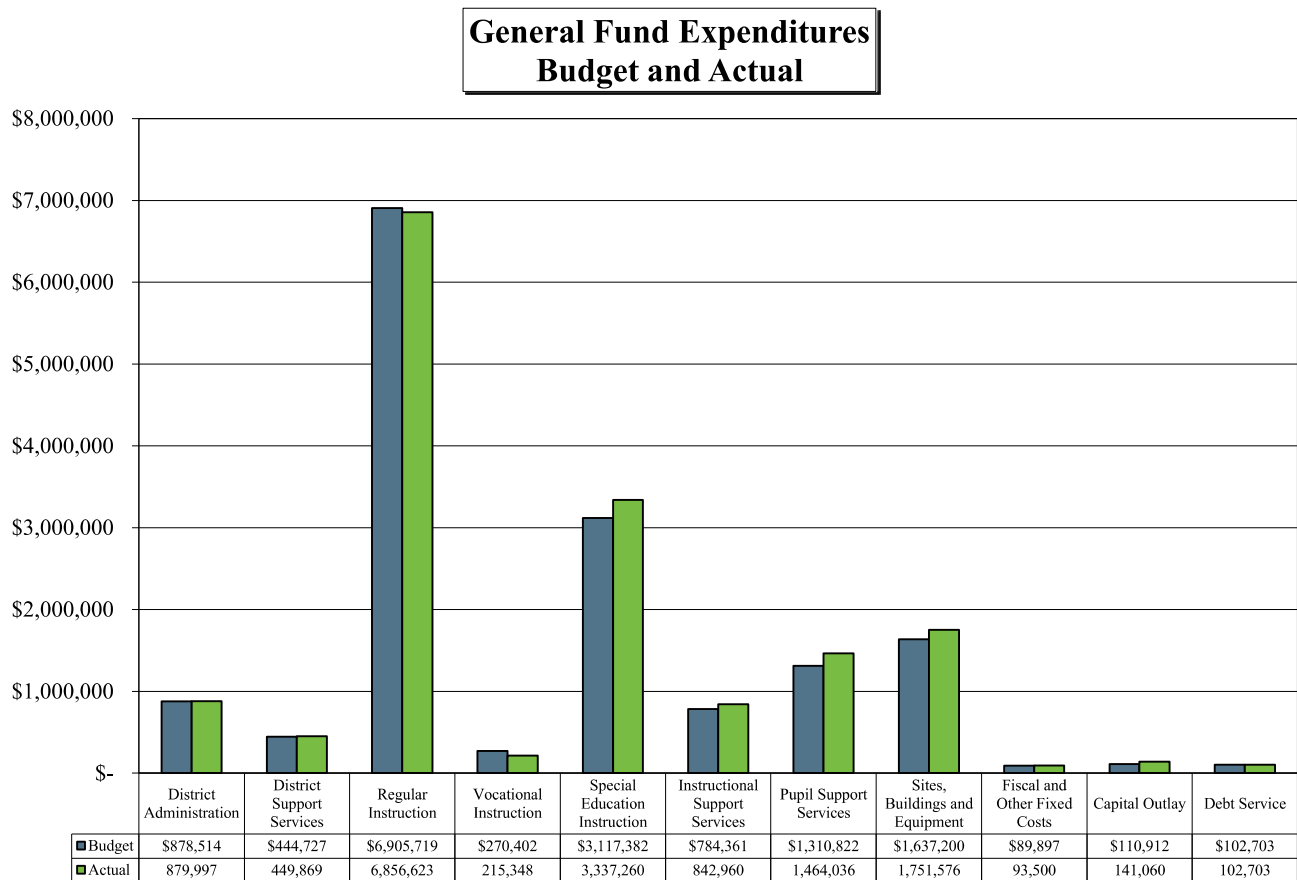
Expenditures in the General Fund for 2016 decreased \$94,189, or 0.6%, from 2015. The most significant decrease of \$122,951 was in pupil support services. This decrease was primarily a result of a decrease in fuel prices which resulted in lower transportation costs in 2016. All other programs relatively remained consistent with the prior year.

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

**GENERAL FUND BUDGETED AND ACTUAL EXPENDITURES**

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

General Fund actual spending of \$15,625,639 was under the original budget of \$15,794,220 by 1.0% and under the final budget of \$16,134,932 by 3.4%.



Actual expenditures were under budget in the General Fund by \$482,293. The largest under budget variance was in special education instruction expenditures, which was under the budgeted amount by \$219,878 due to conservative budgeting for salaries and wages. Pupil Support Services expenditures were \$153,214 under budget due to decreased fuel prices, which resulted in lower transportation costs than budgeted. Sites, buildings, and equipment expenditures were \$114,376 under budget due to not using the \$50,000 that was budgeted for facilities at the high school, in addition to a decrease in fuel prices.

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

**GENERAL FUND OPERATIONS**

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

<b>For the Year Ended June 30,</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Revenues	\$ 13,986,211	\$ 14,823,374	\$ 15,214,658	\$ 15,677,651	\$ 15,825,775
Expenditures	14,518,299	15,905,025	15,359,306	15,746,828	15,652,639
Excess of revenues over (under) expenditures	(532,088)	(1,081,651)	(144,648)	(69,177)	173,136
Plus (minus) other sources (uses)	1,327,655	90,883	(919,788)	350	135
Fund balance, July 1	2,549,212	3,344,779	2,354,011	1,289,575	1,220,748
<b>Fund balance, June 30</b>	<b>\$ 3,344,779</b>	<b>\$ 2,354,011</b>	<b>\$ 1,289,575</b>	<b>\$ 1,220,748</b>	<b>\$ 1,394,019</b>

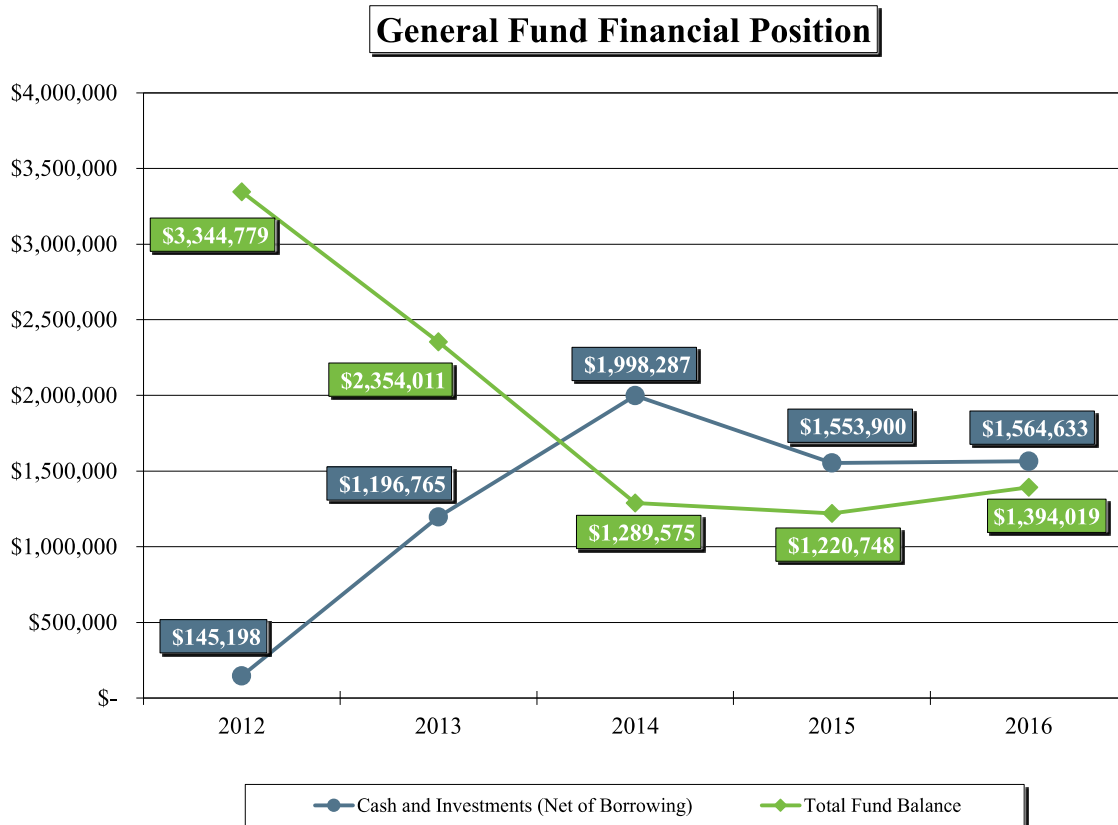
<b>Components of Fund Balance</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Nonspendable	\$ 6,366	\$ 102,150	\$ 92,578	\$ 87,038	\$ 87,855
Restricted/reserved for*					
Staff development	29,597	13,135	2,618	1,735	1,735
Deferred maintenance	12	2	2	2	2
Health and safety	(122,196)	(142,257)	(115,494)	-	-
Learning and development	1,104	1,104	1,104	-	-
Operating capital	497,740	372,684	90,490	11,598	5,317
Safe schools crime levy	-	-	3,126	-	-
Bond proceeds	1,024,903	33,950	-	-	-
Assigned	177,952	177,952	111,491	45,295	11,503
Unassigned	1,729,301	1,795,291	1,103,660	1,075,080	1,287,607
<b>Fund balance, June 30</b>	<b>\$ 3,344,779</b>	<b>\$ 2,354,011</b>	<b>\$ 1,289,575</b>	<b>\$ 1,220,748</b>	<b>\$ 1,394,019</b>

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

In 2016, the District's revenues increased \$277,945 while expenditures decreased \$94,189 as discussed earlier. The General Fund balance increased \$173,271 as a result of current year activity.

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

**GENERAL FUND OPERATIONS (CONTINUED)**



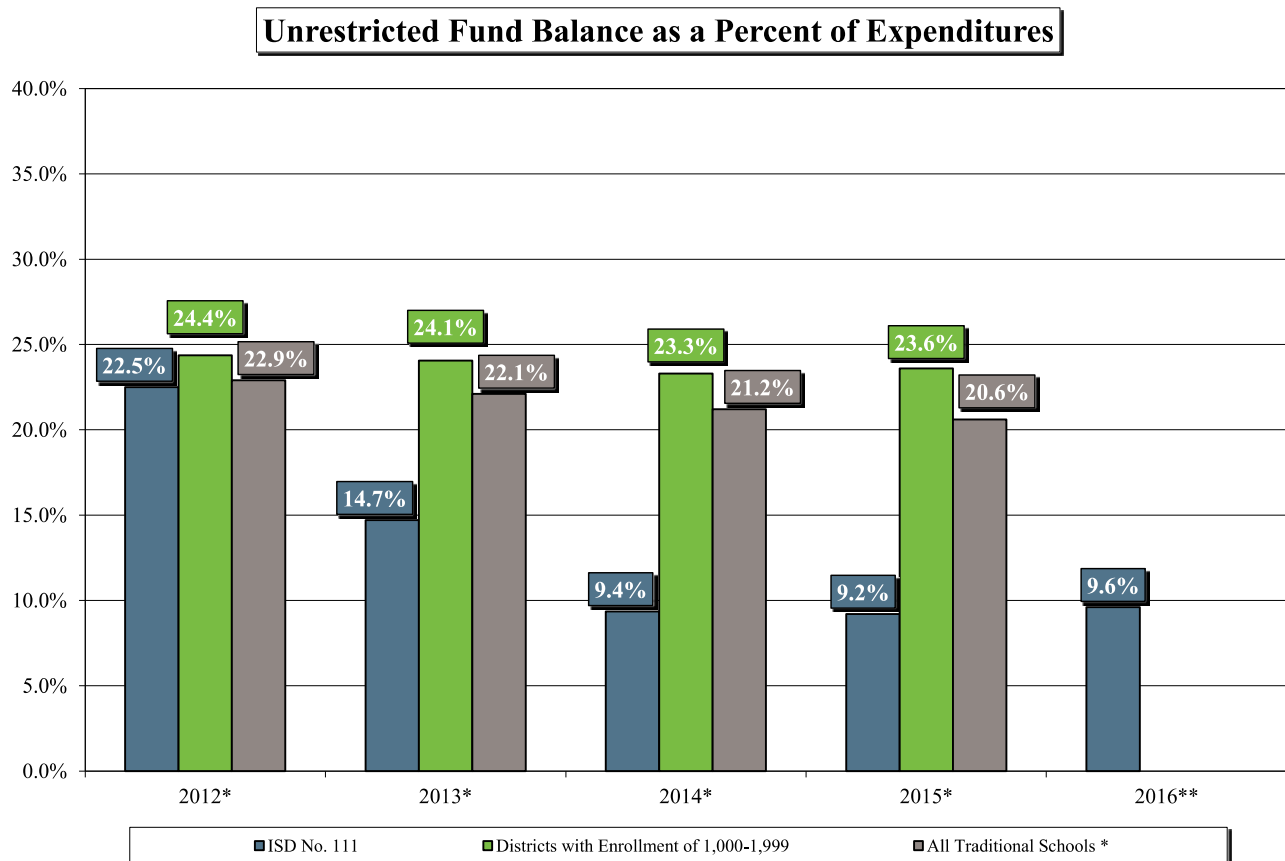
The District has managed its spending through the budget to maintain its fund balance to be in compliance with its policy. However, the District has little control over the cash balance. As state aids are the largest portion of the District's sources, the payment of these funds represents a significant cash flow. During 2012, state aids were paid out with an approximate 36% holdback and in 2013 the holdback decreased to 13.6%. With State metering of aid payments back to 90% in 2014, 2015, and 2016, there is a more direct correlation between cash balance and fund balance.



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

**DISTRICT FINANCIAL HEALTH**

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



\* Source: *School District Profiles*; 2016 data not yet available.

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

The District's goal is to maintain a minimum unassigned General Fund balance of 3% of the annual budget for each year. The unassigned fund balance of \$1,287,607 at June 30, 2016 represents 8.0% of current year budget.

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

**FOOD SERVICE FUND**

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

<b>For the Year Ended June 30,</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Revenues	\$ 766,313	\$ 758,195	\$ 781,290	\$ 784,901	\$ 788,812
Expenditures	766,404	758,195	779,964	762,915	769,827
Excess of revenues over (under) expenditures	(91)	-	1,326	21,986	18,985
Fund balance, July 1	11,418	11,327	11,327	12,653	34,639
<b>Fund balance, June 30</b>	<b>\$ 11,327</b>	<b>\$ 11,327</b>	<b>\$ 12,653</b>	<b>\$ 34,639</b>	<b>\$ 53,624</b>

In 2016, revenues exceeded expenditures, resulting in an increase in fund balance of \$18,985. Revenues and expenditures remained consistent with the prior year.

**COMMUNITY SERVICE FUND**

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

<b>For the Year Ended June 30,</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Revenues and transfers in	\$ 1,130,181	\$ 1,155,655	\$ 1,182,253	\$ 1,241,220	\$ 1,268,511
Expenditures	1,137,800	1,159,749	1,218,344	1,208,190	1,198,741
Excess of revenues over (under) expenditures	(7,619)	(4,094)	(36,091)	33,030	69,770
Fund balance, July 1	74,963	67,344	63,250	27,159	60,189
<b>Fund balance, June 30</b>	<b>\$ 67,344</b>	<b>\$ 63,250</b>	<b>\$ 27,159</b>	<b>\$ 60,189</b>	<b>\$ 129,959</b>

In 2016, revenues increased by \$27,291 primarily because of an increase in programming, as well as an increase in the Young Royals School Readiness and Pathways II grants received. These increases were offset by the disabled school tax levy adjustment coming in \$80,000 less than in 2015. Expenditures remained consistent and fund balance increased by \$69,770. At June 30, 2016, all components of fund balance within the Community Service Fund were positive.

## **Independent School District No. 111**

### **Legislative Summary**

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

#### **STATE AID APPROPRIATIONS**

Total appropriations from the state general fund for E-12 education for the 2016-2017 biennium are \$17.23 billion. The formula allowance for 2016 General Education Aid was increased \$117 (2%) to \$5,948. For 2017, the formula allowance is set at \$6,067, which is also an increase of 2%.

Beginning in 2016, the extended time revenue allowance increases to \$5,117, a \$100 increase.

#### **ENGLISH LEARNER REVENUE**

The funding eligibility time period has been extended from six years to seven years beginning in 2017.

#### **COMPENSATORY REVENUE**

Districts not in a compensatory pilot project are allowed to reallocate up to 50% of compensatory revenue among buildings based on a local plan beginning in 2016. The compensatory pilot grants have been extended for 2016 and later.

#### **STUDENT ACHIEVEMENT LEVY**

The Student Achievement Levy is reduced from \$20 million to \$10 million for 2018 and eliminated for 2019.

#### **OPERATING CAPITAL LEVY**

The operating capital levy equalizing factor has been increased from \$14,500 for 2016, to \$14,740 for 2017, \$17,473 for 2018, and \$20,510 for 2019.

#### **LEARNING AND DEVELOPMENT**

Districts are no longer required to annually report on uses of learning and development revenue.

#### **Q COMP**

The basic Q Comp aid cap was increased to \$88,118,000 beginning for 2017. This cap was set at \$75,636,000 previously. Eligibility was expanded to include cooperative units other than intermediate districts beginning in 2017.

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

### **ALTERNATIVE TEACHER PAY**

New language has been introduced allowing the alternative teacher pay system to include a hiring bonus or other added compensation for teachers identified as effective or highly effective who work in a hard to fill position or hard to staff school. There are additional incentives for teachers who earn a Master's degree or other advanced certification in their field, pursue training or education in shortage areas identified by their district, or help fund a "grow your own" new teacher initiative.

### **STAFF DEVELOPMENT**

Districts are required to use the 2% staff development set-aside for teacher development and evaluation, principal development and evaluation, professional development, in-service education and, to the extent funds remain, for staff development plans. Staff development plans must be aligned with teacher development and evaluation agreement.

### **AMERICAN INDIAN EDUCATION AID**

Success for the Future grants will be replaced with American Indian Education aid effective for 2016. Districts with at least 20 American Indian students are eligible for this aid in the amount of approved cost or \$20,000 plus \$358 per American Indian enrolled on October 1 of the prior school year for enrollment exceeding 20. Districts currently receiving Success for the Future grants will be held harmless.

### **LONG-TERM FACILITIES MAINTENANCE REVENUE**

Beginning in 2017, deferred maintenance, health and safety and alternative facilities revenues will be rolled into a new long-term facilities maintenance revenue program. This new revenue equals the sum of the product of:

- 1) \$193/APU for 2017, \$292 for 2018, and \$380 for 2019, and later, and
- 2) The lesser of 1 or the ratio of the district's average building age to 35 years
- 3) The approved cost of indoor air quality, fire alarm and suppression, and asbestos abatement projects with a cost per site of \$100,000 or more

The 25 large districts currently eligible for alternative facilities revenue continue to be eligible based on approved project costs without a state-imposed per pupil limit.

Districts may choose to issue bonds for the program, levy on a pay as you go basis, or a combination of the two.

Districts are guaranteed to receive at least as much revenue and state aid as they would have received under existing law.

## **Independent School District No. 111**

### **Legislative Summary**

#### **MISCELLANEOUS LEVIES**

The maximum rate for the building lease levy is changed from \$162 to \$212 per adjusted pupil unit for districts and from \$46 to \$65 for intermediate district members.

There is a new natural disaster debt service equalization levy available for Districts who have natural disaster damage in excess of \$500,000 that is not covered by FEMA or insurance. This is effective for the pay 2016 levy.

The debt service equalizing factors have changed from \$3,550 to \$3,400 for 2016 and to \$4,430 for 2017 and later for tier 1 Districts and from \$7,900 to \$8,000 for tier 2 Districts.

#### **LOCAL OPTIONAL REVENUE**

Local optional revenue is replacing location equity revenue. All districts are eligible for \$424 per APU. The revenue will be deducted from the referendum allowance as local equity revenue was in 2015. Districts no longer need to opt out via board resolution. Instead, Districts will indicate the revenue allowance on the levy information system.

#### **ACCOUNTING**

A two-year extension was approved through 2017 of authority for school districts to transfer funds with commissioner approval if transfer does not result in additional aid or levy authority. Transfers are not allowed from the food service or community service funds or the reserved/restricted account for staff development.

#### **FINANCIAL REPORTING DATES**

The deadline for prior year data corrections for final payments has been moved from December 30 to December 15.

#### **SPECIAL EDUCATION**

A new special education formula is enacted beginning in 2016. For 2016, special education aid equals the sum of the new formula aid plus the new formula excess cost aid.

For 2016, the new special education regular formula is the least of:

- 62% of the District's old formula special expenditures for the prior fiscal year
- 50% of the District's nonfederal special education expenditures for the prior fiscal year (including fringe benefits)
- 56% of the amount calculated using a new pupil-driven formula based on prior year data

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

### **SPECIAL EDUCATION (CONTINUED)**

For 2016, the new special education excess cost aid is the greater of:

- 56% of the difference between the District's prior year unreimbursed nonfederal special education cost and 7% of the District's prior year general education revenue
- 62% of the difference between the District's prior year unreimbursed old formula special education cost and 2.5% of the District's prior year general education revenue

During 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than having those aids flow through the resident district. Tuition bills will be reduced to offset the aid paid to the cooperative and intermediaries.

### **FOUR DAY WEEKS**

Grandfathered districts that currently operate using a four-day week are allowed to maintain this program until the 2019-2020 school year. Future approval is dependent upon meeting the World's Best Workforce goals. If discontinued, districts are allowed a one-year transition time.

### **VOLUNTARY PREKINDERGARTEN**

Starting in 2017, children who are four years old on September 1<sup>st</sup> of the school year in which they enroll are eligible. Funding is formula driven, with students at participating sites generating up to 0.6 pupil units.

Aid entitlement is capped at \$27,092,000 for 2017, \$27,239,000 for 2018, and \$26,399,000 for 2019.

### **HOME VISITING REVENUE**

Effective for 2018, on the Pay 2017 levy, the formula for home visiting revenue is increased from \$1.60 to \$3.00 times the population under age 5 residing in the District on September 1 of the last school year.

### **SCHOOL BOARD ELECTIONS**

Schools are allowed to appoint someone to a vacant seat; however they are required to hold an election for the vacated seat during the next general election. The appointed position may be negated if 5% of the general election voters sign a petition within the first 30 days.

## **Independent School District No. 111 Emerging Issues**

### **Executive Summary**

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

- **Accounting Standard Update –GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** –GASB has issued GASB statement 75 relating to 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 their OPEB liabilities.

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

### **ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 - ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

**ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 - ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement 75 carries forward from Statement 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).



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

**Financial Statements**

**June 30, 2016**



**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, 2016**

<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, 2016
Jeffrey Jackson	Treasurer	December 31, 2016
Stacy Unowsky	Director	December 31, 2016
Steve Burns	Director	December 31, 2016
Tim Thompson	Director	December 31, 2018
<u>Administration</u>		
Ron Wilke	Superintendent	Appointed

## Independent Auditor's Report

BergankDV, Ltd.

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, 2016, 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.

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## **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, 2016, 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 supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects in relation to the basic financial statements as a whole.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, 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.

*BergankDV, Ltd.*

St. Cloud, Minnesota  
October 24, 2016

## **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, 2016. 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 2015-2016 include the following:

- Total net position increased by \$1,871,311
- General Fund overall revenues and other financing sources exceeded expenditures by \$173,271

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

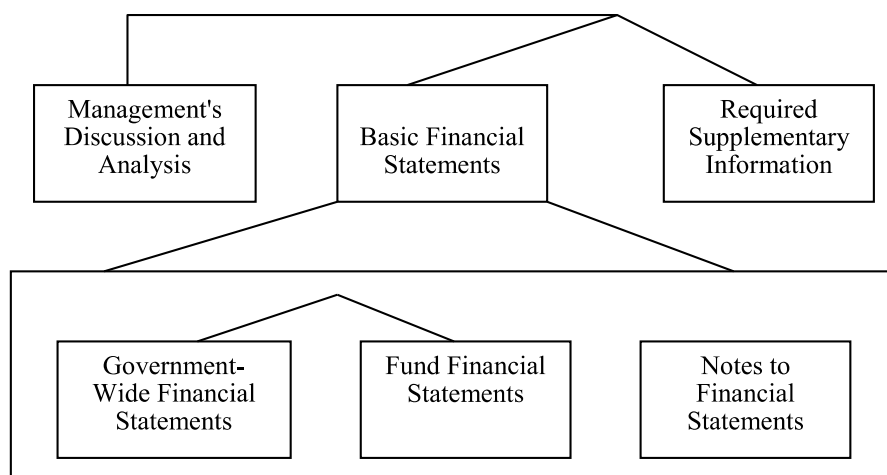
The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information, which includes the MD&A, the basic financial statements, and the supplementary information. The basic financial statements include two kinds of statements that present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

<b>Financial Statements</b>			
	<b>Government Wide</b>	<b>Fund - Governmental</b>	<b>Fund - Fiduciary</b>
Scope	Entire District (except fiduciary funds).	The activities of the District that is not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities.
Required Financial Statements	<ul style="list-style-type: none"> <li>❖ Statement of Net Position</li> <li>❖ Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>❖ Balance Sheet</li> <li>❖ Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>❖ Statement of Fiduciary Net Position</li> <li>❖ Statement of Changes in Fiduciary Net Position</li> </ul>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.	Accrual accounting and economic resources focus.
Type of Assets/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All addition and deductions during the year, regardless of when cash is received or paid.

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

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### **Government-wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements the District's activities are shown in one category:

- Governmental Activities – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services and community education. Property taxes and state aids finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

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

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Fund Financial Statements (Continued)

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

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Position

The District's combined net position on June 30, 2016, was \$2,225,861 (see details in Table A-1 below). The increase was due to the district's bond refunding activity and capital depreciation.

**Table A-1**

	June 30, 2016	June 30, 2015	Total % Change
Current and Other Assets	\$18,944,122	\$36,009,977	-47.39%
Capital Assets	55,333,414	56,873,674	-2.71%
Total Assets	74,277,536	92,883,651	-20.03%
Deferred Outflows of Resources			
Deferred Outflows related to Pensions	2,033,051	1,567,581	29.69%
Total Assets and Deferred Outflows of Resources	<u>\$76,310,587</u>	<u>\$94,451,232</u>	<u>-19.21%</u>
Long-Term Liabilities	\$64,154,826	\$83,028,007	-22.73%
Current Liabilities	2,269,347	2,626,894	-13.61%
Total Liabilities	66,424,173	85,654,901	-22.45%
Deferred Inflow of Resources	7,660,553	8,441,781	-9.25%
Net Position			
Net Investment in Capital Assets	10,563,088	12,238,674	-13.69%
Restricted	535,202	114,799	366.21%
Unrestricted	(8,872,429)	(11,998,923)	26.06%
Total Net Position	<u>2,225,861</u>	<u>354,550</u>	<u>527.80%</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$76,310,587</u>	<u>\$94,451,232</u>	<u>-19.21%</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)**

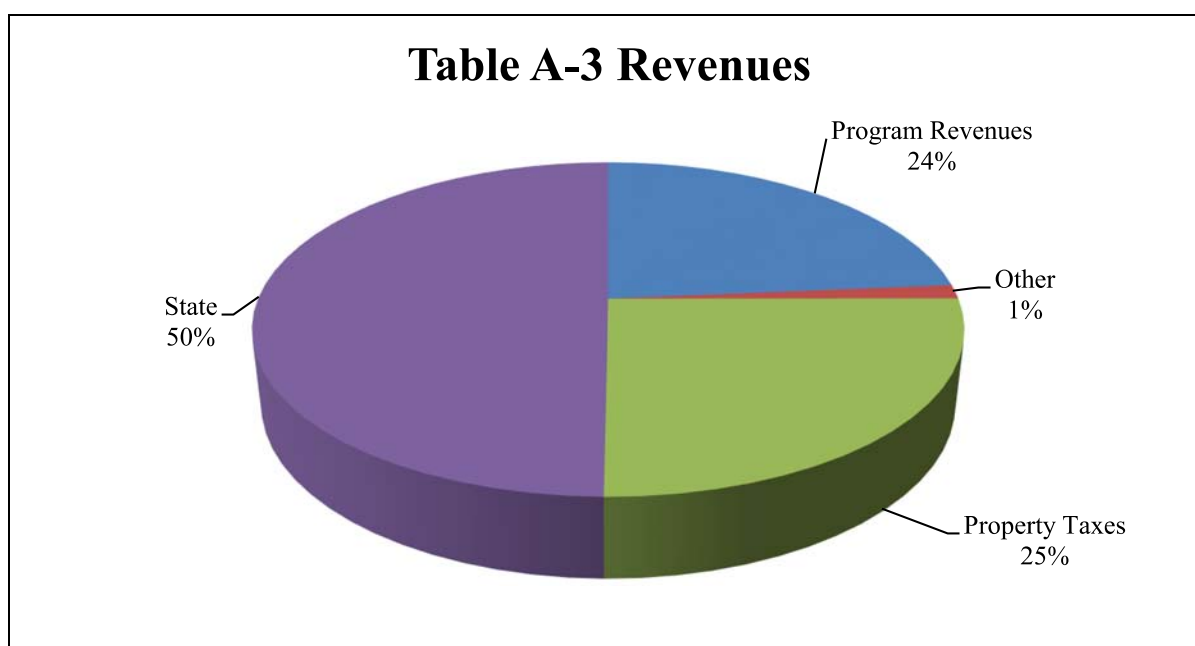
**Table A-2**

	2015-2016	2014-2015	Total Percent Change
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 1,571,483	\$ 1,749,736	-10.19%
Operating grants and contributions	3,590,490	2,910,882	23.35%
Capital grants and contributions	221,797	-	100.00%
General revenues			
Property taxes	5,740,902	5,572,299	3.03%
Aids and payments from state and other	11,349,433	12,075,494	-6.01%
Other sources	303,092	200,365	51.27%
Total revenues	<u>22,777,197</u>	<u>22,508,776</u>	<u>1.18%</u>
<b>Expenses</b>			
Administration	887,531	826,947	7.33%
District support services	443,508	496,543	-10.68%
Elementary and secondary regular instruction	6,912,570	6,913,909	-0.02%
Vocational instruction	268,380	243,022	10.43%
Special education instruction	3,119,435	3,021,284	3.25%
Instructional support services	870,721	802,075	8.56%
Pupil support services	1,391,543	1,516,312	-8.23%
Site, buildings and equipment	3,165,752	3,166,113	-0.01%
Fiscal and other fixed cost programs	89,897	88,779	1.26%
Food service	778,854	762,915	2.09%
Community education and services	1,119,219	1,139,563	-1.79%
Interest and fiscal charges on long-term debt	1,858,476	2,577,960	-27.91%
Total expenses	<u>20,905,886</u>	<u>21,555,422</u>	<u>-3.01%</u>
Change in net position	1,871,311	953,354	96.29%
Net position – beginning	<u>354,550</u>	<u>(598,804)</u>	<u>-159.21%</u>
Net position – ending	<u>\$ 2,225,861</u>	<u>\$ 354,550</u>	<u>527.80%</u>

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

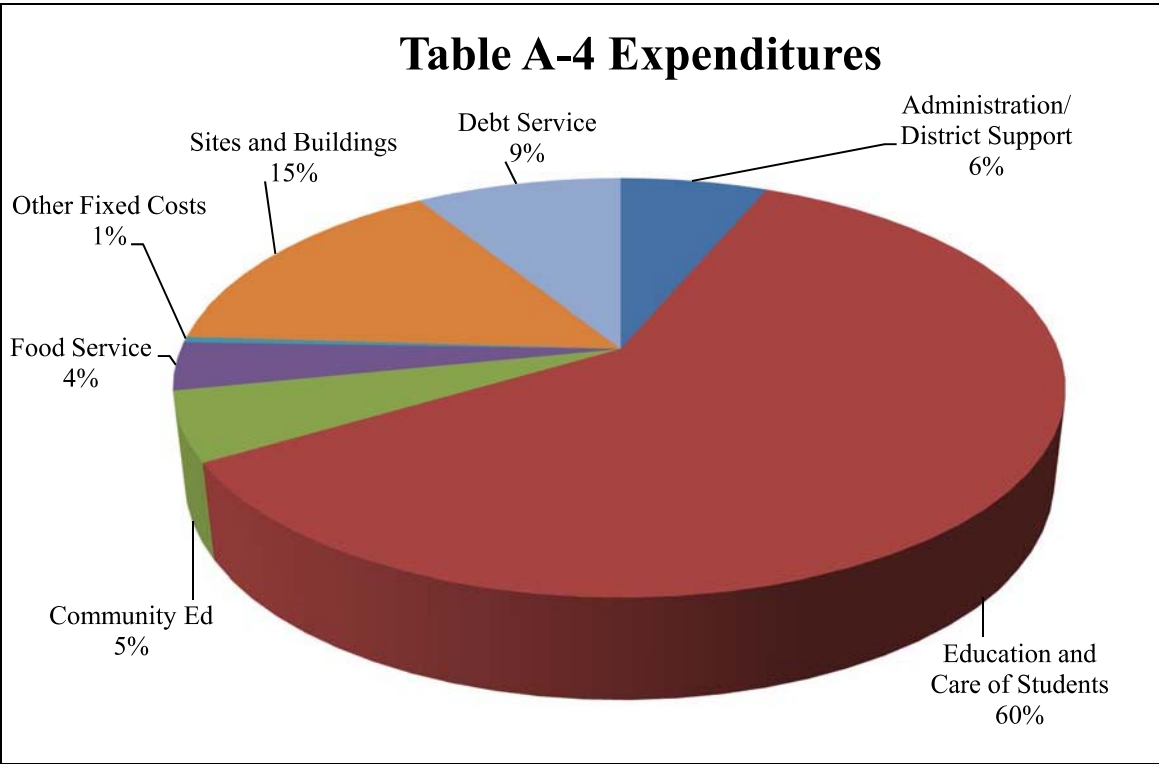
**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

The District's total revenue consisted of program revenues of \$5,383,770, property taxes of \$5,740,902 aid and payments from the state and other of \$11,349,433 and \$303,092 from miscellaneous other sources. Expenses totaling \$20,905,886 consisted mainly of regular, vocational, special education instruction, instructional support and pupil support cost of \$12,562,649. Other areas of cost included: support services (District and administrative) totaling \$1,331,039, sites, building and equipment \$3,165,752, fiscal and other fixed cost of \$89,897, food services activities \$778,854, Community Education activities of \$1,119,219 and interest and other fiscal changes on long-term, debt of \$1,858,476.



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

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



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

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

**Revenue and Expenditures**

A comparison of General Fund Revenue and Expenditures are below in Table A-5. Total General Fund revenues increased by \$148,124 or about .94% 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 2015 levy cycle.

Total General Fund expenditures decreased \$94,189 or about -.6% from the prior year. Factors contributing to the decrease include lower price for transportation fuel and heating gas.

**Table A-5  
General Fund Revenues**

	Year Ended		Change	
	June 30, 2016	June 30, 2015	Increase (Decrease)	Percentage
Local sources				
Property taxes	\$ 1,379,979	\$ 1,255,899	\$ 124,080	9.88%
Other	628,070	716,864	(88,794)	-12.39%
State sources	13,349,781	13,232,609	117,172	0.89%
Federal sources	467,945	472,279	(4,334)	-0.92%
Total	<u>\$ 15,825,775</u>	<u>\$ 15,677,651</u>	<u>\$ 148,124</u>	<u>0.94%</u>

**General Fund Expenditures**

	June 30, 2016	June 30, 2015	Change	
			Increase (Decrease)	Percentage
Salaries	\$ 9,067,619	\$ 9,000,466	\$ 67,153	0.75%
Employee benefits	2,895,120	2,754,876	140,244	5.09%
Purchased services	2,932,752	3,069,716	(136,964)	-4.46%
Supplies and materials	392,337	420,670	(28,333)	-6.74%
Capital expenditures	213,614	336,684	(123,070)	-36.55%
Other expenditures	151,197	164,416	(13,219)	-8.04%
Total	<u>\$ 15,652,639</u>	<u>\$ 15,746,828</u>	<u>\$ (94,189)</u>	<u>-0.60%</u>

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

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

**Fund Balance**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a decrease in combined fund balance of \$17,631,902 for an overall combined District fund balance of \$10,910,772. Debt Service significant fund balance reduction was due to a bond refunding.

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

Fund	June 30, 2015 Fund Balance	Revenue	Expenditures	June 30, 2016 Fund Balance	Change
General	\$1,220,748	\$15,825,775	\$15,652,639	\$1,394,019	\$173,271
Food Service	34,639	788,812	769,827	53,624	18,985
Community Ed	60,189	1,268,511	1,198,741	129,959	69,770
Debt Service	27,227,098	4,946,781	36,916,351	9,333,170	(17,893,928)
Total	\$28,542,674	\$22,829,897	\$54,537,558	\$10,910,772	\$(17,631,902)

**General Fund Budgetary Highlights**

The District's final General Fund budget anticipated that expenditures would exceed revenues by \$ 272,952. The actual result was an increase in fund balance of \$173,136. Revenues were \$36,205 under budget and expenditures were \$482,293 under budget. The final budget was modified from the original budget.

Expenditures:

- Final expenditures were \$482,293 lower than the final budget. The contributing factor of the final budget expenditures being higher than actual were; transportation costs due to lower fuel cost and less annual miles driven, lower natural gas cost due to a mild heating season, lower actual cost for the Carver County Mental Health workers and salary expenses lower than actual.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Asset**

By the end of 2016, the District had invested \$73,756,641 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 \$1,597,875 from 2015. 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**

	2016	2015
Land	\$ 26,700	\$ 26,700
Land improvements	414,769	414,769
Building and improvements	71,284,843	71,284,643
Equipment	2,030,329	1,972,764
Less: accumulated depreciation	<u>(18,423,277)</u>	<u>(16,825,402)</u>
Total	<u>\$ 55,333,414</u>	<u>\$ 56,873,674</u>

**Long-Term Debt**

At June 30, 2016 the District had \$49,100,000 in general obligation bond payable. This is a decrease of \$21,465,000 from June 30, 2015. 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**

	2016	2015
General Obligation Bonds	\$ 49,100,000	\$ 70,565,000
Premiums on Bonds	3,242,650	2,398,406
Certificates of Participation	812,676	880,930
Compensated Absences	172,670	162,820
Net Pension Liability	<u>10,826,830</u>	<u>9,020,851</u>
Total	<u>\$ 64,154,826</u>	<u>\$ 83,028,077</u>
Long-Term Liabilities		
Due within one year	\$11,872,289	\$5,195,770
Due in more than one year	<u>52,282,537</u>	<u>77,832,237</u>
Total	<u>\$ 64,154,826</u>	<u>\$ 83,028,077</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 a decrease from 2015. 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)**

<b>Grade</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
K	113.66	114.69	114.37	132.50	119.75
1-3	367.76	367.74	357.88	339.64	355.79
4-6	395.14	379.68	371.15	356.60	351.19
7-12	671.57	707.39	694.62	718.98	714.35
Total K - 12 ADM	1,548.13	1,569.50	1,538.02	1,547.72	1,541.08
ADM change	(22.23)	21.37	(31.48)	9.70	(6.64)

**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, 2016**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents (including cash equivalents)	\$ 4,718,707
Cash with fiscal agent	8,586,304
Current property taxes receivable	3,442,781
Delinquent property taxes receivable	167,988
Accounts receivable	8,496
Due from Department of Education	1,257,020
Due from Federal Government through Department of Education	465,242
Due from other Minnesota school districts	44,287
Due from other governmental units	40,274
Inventory	18,087
Prepaid items	87,999
Net other post employment benefits (OPEB) asset	106,937
Capital assets, not being depreciated	
Land	26,700
Capital assets, net of accumulated depreciation	
Land improvements	39,932
Buildings	54,754,828
Equipment	511,954
Total assets	<u>74,277,536</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to pensions	<u>2,033,051</u>
Total assets and deferred outflows of resources	<u>\$ 76,310,587</u>
<b>Liabilities</b>	
Accounts payable	\$ 149,713
Salaries and benefits payable	1,173,962
Interest payable	733,621
Due to other Minnesota school districts	152,431
Due to other governmental units	41,824
Unearned revenue	17,796
Bond principal payable	
Payable within one year	11,735,000
Payable after one year	40,607,650
Certificates of participation	
Payable within one year	75,867
Payable after one year	736,809
Compensated absences payable	
Payable within one year	61,422
Payable after one year	111,248
Net pension liability	<u>10,826,830</u>
Total liabilities	<u>66,424,173</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	6,248,542
Deferred inflows related to pensions	<u>1,412,011</u>
Total deferred inflows of resources	<u>7,660,553</u>
<b>Net Position</b>	
Net investment in capital assets	10,563,088
Restricted	
Debt service	338,517
Other purposes	196,685
Unrestricted	<u>(8,872,429)</u>
Total net position	<u>2,225,861</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 76,310,587</u>

See notes to financial statements.

**Independent School District No. 111**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					<b>Governmental Activities</b>
Administration	\$ 887,531	\$ -	\$ -	\$ -	\$ (887,531)
District support services	443,508	-	-	-	(443,508)
Elementary and secondary regular instruction	6,912,570	301,222	957,983	-	(5,653,365)
Vocational education instruction	268,380	-	27,984	-	(240,396)
Special education instruction	3,119,435	456	1,945,850	-	(1,173,129)
Instructional support services	870,721	46,635	-	-	(824,086)
Pupil support services	1,391,543	-	32,239	-	(1,359,304)
Sites and buildings	3,165,752	-	-	221,797	(2,943,955)
Fiscal and other fixed cost programs	89,897	-	-	-	(89,897)
Food service	778,854	474,292	314,520	-	9,958
Community education and services	1,119,219	748,878	311,914	-	(58,427)
Interest and fiscal charges on long-term debt	1,858,476	-	-	-	(1,858,476)
<b>Total governmental activities</b>	<b>\$ 20,905,886</b>	<b>\$ 1,571,483</b>	<b>\$ 3,590,490</b>	<b>\$ 221,797</b>	<b>(15,522,116)</b>
<b>General revenues</b>					
Taxes					
Property taxes, levied for general purposes					1,338,779
Property taxes, levied for community service					206,540
Property taxes, levied for debt service					4,195,583
State aid-formula grants					11,349,433
Other general revenues					48,747
Investment income					254,210
Gain on disposal of capital assets					135
<b>Total general revenues</b>					<u>17,393,427</u>
Change in net position					<u>1,871,311</u>
Net position - beginning					<u>354,550</u>
Net position - ending					<u>\$ 2,225,861</u>

**Independent School District No. 111**  
**Watertown, Minnesota**  
**Balance Sheet - Governmental Funds**  
**June 30, 2016**

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 1,564,633	\$ 2,801,774	\$ 352,300	\$ 4,718,707
Cash with fiscal agent	-	8,586,304	-	8,586,304
Current property taxes receivable	793,369	2,512,874	136,538	3,442,781
Delinquent property taxes receivable	39,158	122,782	6,048	167,988
Accounts receivable	2,768	-	5,728	8,496
Due from department of education	1,180,543	50,594	25,883	1,257,020
Due from Federal Government through Department of Education	465,242	-	-	465,242
Due from other Minnesota school districts	35,604	-	8,683	44,287
Due from other governmental units	40,274	-	-	40,274
Inventory	1,137	-	16,950	18,087
Prepaid items	86,718	-	1,281	87,999
Total assets	<u>\$ 4,209,446</u>	<u>\$ 14,074,328</u>	<u>\$ 553,411</u>	<u>\$ 18,837,185</u>
<b>Liabilities</b>				
Accounts payable	\$ 104,603	\$ 2,500	\$ 42,610	\$ 149,713
Salaries and benefits payable	1,121,395	-	52,567	1,173,962
Due to other Minnesota school districts	152,431	-	-	152,431
Due to other governmental units	41,824	-	-	41,824
Unearned revenue	-	-	17,796	17,796
Total liabilities	<u>1,420,253</u>	<u>2,500</u>	<u>112,973</u>	<u>1,535,726</u>
<b>Deferred Inflows of Resources</b>				
Property taxes levied for subsequent year's expenditures	1,381,859	4,615,876	250,807	6,248,542
Unavailable revenue - delinquent property taxes	13,315	122,782	6,048	142,145
Total deferred inflows of resources	<u>1,395,174</u>	<u>4,738,658</u>	<u>256,855</u>	<u>6,390,687</u>
<b>Fund Balances</b>				
Nonspendable	87,855	-	18,231	106,086
Restricted	7,054	9,333,170	165,352	9,505,576
Assigned	11,503	-	-	11,503
Unassigned	1,287,607	-	-	1,287,607
Total fund balances	<u>1,394,019</u>	<u>9,333,170</u>	<u>183,583</u>	<u>10,910,772</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,209,446</u>	<u>\$ 14,074,328</u>	<u>\$ 553,411</u>	<u>\$ 18,837,185</u>

**Independent School District No. 111**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**June 30, 2016**

Total fund balances - governmental funds	\$ 10,910,772
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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	73,756,641
Less accumulated depreciation	(18,423,227)

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	(49,100,000)
Premium on bonds payable	(3,242,650)
Certificates of participation	(812,676)
Compensated absences	(172,670)
Net pension liability	(10,826,830)

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	2,033,051
Deferred outflows of resources related to pensions	(1,412,011)

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

106,937

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.

142,145

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

(733,621)

Total net position - governmental activities	<u><u>\$ 2,225,861</u></u>
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**Independent School District No. 111**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2016**

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>				
Local property taxes	\$ 1,379,979	\$ 4,206,021	\$ 207,719	\$ 5,793,719
Other local and county revenues	599,720	244,793	792,736	1,637,249
Revenue from state sources	13,349,781	495,967	317,685	14,163,433
Revenue from federal sources	467,945	-	264,891	732,836
Sales and other conversion of assets	28,350	-	474,292	502,642
Total revenues	<u>15,825,775</u>	<u>4,946,781</u>	<u>2,057,323</u>	<u>22,829,879</u>
<b>Expenditures</b>				
Current				
Administration	878,514	-	-	878,514
District support services	444,727	-	-	444,727
Elementary and secondary regular instruction	6,905,719	-	-	6,905,719
Vocational education instruction	270,402	-	-	270,402
Special education instruction	3,117,382	-	-	3,117,382
Instructional support services	784,361	-	-	784,361
Pupil support services	1,310,822	-	75,663	1,386,485
Sites and buildings	1,637,200	-	-	1,637,200
Fiscal and other fixed cost programs	89,897	-	-	89,897
Food service	-	-	769,488	769,488
Community education and services	-	-	1,120,511	1,120,511
Capital outlay				
District support services	3,572	-	-	3,572
Elementary and secondary regular instruction	7,443	-	-	7,443
Special education instruction	24,843	-	-	24,843
Instructional support services	68,401	-	-	68,401
Sites and buildings	6,653	-	-	6,653
Food service	-	-	339	339
Community education and services	-	-	2,567	2,567
Debt service				
Principal	68,254	34,635,000	-	34,703,254
Interest and fiscal charges	34,449	2,281,351	-	2,315,800
Total expenditures	<u>15,652,639</u>	<u>36,916,351</u>	<u>1,968,568</u>	<u>54,537,558</u>
Excess of revenues over (under) expenditures	173,136	(31,969,570)	88,755	(31,707,679)
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	135	-	-	135
Bond issuance	-	13,170,000	-	13,170,000
Bond premium	-	905,642	-	905,642
Total other financing sources	<u>135</u>	<u>14,075,642</u>	<u>-</u>	<u>14,075,777</u>
Net change in fund balances	173,271	(17,893,928)	88,755	(17,631,902)
<b>Fund Balances</b>				
Beginning of year	<u>1,220,748</u>	<u>27,227,098</u>	<u>94,828</u>	<u>28,542,674</u>
End of year	<u>\$ 1,394,019</u>	<u>\$ 9,333,170</u>	<u>\$ 183,583</u>	<u>\$ 10,910,772</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, 2016**

Net change in fund balances - total governmental funds	\$ (17,631,902)
--	-----------------

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	57,565
Depreciation expense	(1,597,825)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.

(9,850)

Net OPEB are recognized as paid in the governmental funds, but recognized as the expense is incurred.

(15,912)

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.

34,703,254

Proceeds from the sale of bonds are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.

(13,170,000)

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.

(844,244)

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.

Pension expense	37,116
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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.

(52,817)

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.

395,926

Change in net position - governmental activities

\$ 1,871,311

**Independent School District No. 111**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>Revenues</b>				
Local property taxes	\$ 1,397,447	\$ 1,397,447	\$ 1,379,979	\$ (17,468)
Other local and county revenues	655,500	655,500	599,720	(55,780)
Revenue from state sources	13,293,465	13,293,465	13,349,781	56,316
Revenue from federal sources	480,013	480,013	467,945	(12,068)
Sales and other conversion of assets	35,555	35,555	28,350	(7,205)
Total revenues	<u>15,861,980</u>	<u>15,861,980</u>	<u>15,825,775</u>	<u>(36,205)</u>
<b>Expenditures</b>				
Current				
Administration	912,995	879,997	878,514	(1,483)
District support services	462,261	449,869	444,727	(5,142)
Elementary and secondary regular instruction	6,833,444	6,856,623	6,905,719	49,096
Vocational education instruction	189,152	215,348	270,402	55,054
Special education instruction	3,028,669	3,337,260	3,117,382	(219,878)
Instructional support services	795,056	842,960	784,361	(58,599)
Pupil support services	1,476,502	1,464,036	1,310,822	(153,214)
Sites and buildings	1,776,578	1,751,576	1,637,200	(114,376)
Fiscal and other fixed cost programs	93,500	93,500	89,897	(3,603)
Capital outlay				
District support services	4,000	5,650	3,572	(2,078)
Elementary and secondary regular instruction	7,960	11,410	7,443	(3,967)
Special education instruction	7,900	29,000	24,843	(4,157)
Instructional support services	75,000	75,000	68,401	(6,599)
Sites and buildings	28,500	20,000	6,653	(13,347)
Debt service				
Principal	68,347	68,347	68,254	(93)
Interest and fiscal charges	34,356	34,356	34,449	93
Total expenditures	<u>15,794,220</u>	<u>16,134,932</u>	<u>15,652,639</u>	<u>(482,293)</u>
Excess of revenues over (under) expenditures	67,760	(272,952)	173,136	446,088
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	-	-	135	135
Transfers out	(150,000)	(55,000)	-	55,000
Total other financing sources (uses)	<u>(150,000)</u>	<u>(55,000)</u>	<u>135</u>	<u>55,135</u>
Net change in fund balance	<u>\$ (82,240)</u>	<u>\$ (327,952)</u>	173,271	<u>\$ 501,223</u>
<b>Fund Balance</b>				
Beginning of year			1,220,748	
End of year			<u>\$ 1,394,019</u>	

See notes to financial statements.

**Independent School District No. 111**  
**Statement of Fiduciary Net Position**  
**June 30, 2016**

	Private Purpose Trust Fund	Agency Funds
<b>Assets</b>		
Cash and investments	\$ 77,070	\$ 2,882
<b>Liabilities</b>		
Due to others	\$ -	\$ 2,882
<b>Net Position</b>		
Held in trust for scholarships	77,070	-
Total liabilities and net position	\$ 77,070	\$ 2,882

**Statement of Changes in Fiduciary Net Position**  
**Year Ended June 30, 2016**

	Private Purpose Trust Fund
<b>Additions</b>	
Contributions	\$ 24,359
Interest revenue	31
Total additions	24,390
<b>Deductions</b>	
Scholarship	28,720
Change in net position	(4,330)
<b>Net Position</b>	
Beginning of year	81,400
End of year	\$ 77,070

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

**Description of Funds:**

**Major Funds:**

General Fund – This Fund is the basic operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for: administration, kindergarten through 12<sup>th</sup> grade instruction, transporting students to and from school, maintenance of facilities, 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. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. 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. Investment held by a 2.a.7 and/or a 2.a.7 like investment pool are measured at amortized cost.

Cash and investments at June 30, 2016, were comprised of deposits, shares in the Minnesota Trust (MN Trust) Investment Shares Portfolio, U.S. Treasury Note, FNMA, and a money market account. The MN Trust Investment Shares Portfolio is a money market fund registered under the Investment Act of 1940, meets conditions of Rule 2.a.7 of SEC and holds investments with final maturities less than 13 months.

**E. Property Tax Receivable**

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

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

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2015, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2016. 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.

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

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

**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.

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

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

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

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

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

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has 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.

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 an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

**M. Compensated Absences**

Employees earn vacation pay at rates dependent upon each employee labor contract. Outstanding vacation liabilities are payable upon termination of employment. Vacation that is earned and unused as of June 30, 2016, 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. Additional information can be found in TRA Note 6.

**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, 2016.

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

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

**Q. Fund Balance**

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

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

**R. Net Position**

Net position represents the difference between assets, 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.

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

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

**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.

**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 and Special Revenue 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:** For 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, 2016, the District's deposits were not exposed to custodial credit risk.

As of June 30, 2016, the District had the following deposits:

Checking	\$ 681,547
Certificate of Deposit	<u>511,467</u>
Total	<u><u>\$ 1,193,014</u></u>

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

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

**B. Investments**

As of June 30, 2016, 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	
Pooled:				
MN Trust Investment Shares Portfolio	\$ 3,604,845	\$ 3,604,845	\$ -	AAA
Nonpooled: Cash with fiscal agent				
US Treasury Note	49,053	49,053	-	AAA
FNMA	8,483,171	8,483,171	-	AAA
Money Market	54,080	54,080	-	N/A
Total Nonpooled Investments	<u>8,586,304</u>	<u>8,586,304</u>	<u>-</u>	
Total	<u>\$ 12,191,149</u>	<u>\$ 12,191,149</u>	<u>\$ -</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 it's investment in FNMA (98.8%) within cash with fiscal agent exceeded 5% of the nonpooled 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, 2016:

- \$8,532,224 are valued using a quoted market prices (Level 1 inputs)

The following is a summary of total deposits and investments.

Petty cash	\$ 800
Deposits (Note 3. A. )	1,193,014
Investments	<u>12,191,149</u>
Total deposits and investments	<u>\$ 13,384,963</u>

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

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

**B. Investments (Continued)**

Deposits and investments are presented in the June 30, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 4,718,707
Cash with fiscal agent	8,586,304
Statement of Fiduciary Net Position	
Private Purpose Trust Fund - cash and investments	77,070
Agency Funds - cash and investments	<u>2,882</u>
Total deposits and investments	<u><u>\$ 13,384,963</u></u>



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

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 26,700	\$ -	\$ -	\$ 26,700
Capital assets being depreciated				
Land improvements	414,769	-	-	414,769
Buildings	71,284,843	-	-	71,284,843
Equipment	1,972,764	57,565	-	2,030,329
Total capital assets being depreciated	73,672,376	57,565	-	73,729,941
Less accumulated depreciation for				
Land improvements	362,025	12,812	-	374,837
Buildings	15,030,715	1,499,300	-	16,530,015
Equipment	1,432,662	85,713	-	1,518,375
Total accumulated depreciation	16,825,402	1,597,825	-	18,423,227
Total capital assets being depreciated, net	56,846,974	(1,540,260)	-	55,306,714
Governmental activities, capital assets, net	<u>\$ 56,873,674</u>	<u>\$ (1,540,260)</u>	<u>\$ -</u>	<u>\$ 55,333,414</u>

Depreciation expense for the year ended June 30, 2016, was charged to the following governmental functions:

Administration	\$ 767
District support services	192
Elementary and secondary regular instruction	21,447
Special education instruction	1,647
Instructional support services	23,839
Pupil support services	1,008
Sites and buildings	1,537,165
Food service	9,245
Community service	2,515
	<u>2,515</u>
Total depreciation expense	<u>\$ 1,597,825</u>

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

**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						
2007A G.O. School Building Bonds	01/03/07	3.8%-4.0%	\$ 8,385,000	02/01/26	\$ 8,385,000	\$ 8,385,000
2012A G.O. Equipment Certificates of Indebtedness	06/20/12	3.0%	1,210,000	02/01/18	500,000	245,000
2012B G.O. School Building Bonds	09/15/12	3.0%-4.0%	25,930,000	02/01/26	24,310,000	1,960,000
2013A G.O. Alternative Facilities Bonds	04/30/13	.04%-3.0%	3,175,000	02/01/33	2,735,000	100,000
2015A G.O. School Building Refunding Bonds	11/24/15	3.0%	5,055,000	02/01/22	5,055,000	1,045,000
2015 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					3,242,650	-
Total G.O. Bonds, net of premium					52,342,650	11,735,000
Certificates of participation	07/09/10	4.04%	1,262,512	02/07/24	812,676	75,867
Compensated absences payable					172,670	61,422
Total all long-term liabilities					\$ 53,327,996	\$ 11,872,289

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.

**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
2017	\$ 11,735,000	\$ 1,676,486	\$ 13,411,486
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
2022-2026	21,130,000	2,069,628	23,199,628
2027-2031	1,205,000	166,630	1,371,630
2032-2033	530,000	24,060	554,060
Total	\$ 49,100,000	\$ 7,951,474	\$ 57,051,474

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

**NOTE 4 – LONG-TERM DEBT**

**B. Minimum Debt Payments for Bonds and Loans (Continued)**

Year Ending June 30,	Certificates of Participation		
	Principal	Interest	Total
2017	\$ 75,867	\$ 31,458	\$ 107,325
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
2022-2024	347,238	19,789	367,027
Total	<u>\$ 812,676</u>	<u>\$ 141,492</u>	<u>\$ 954,168</u>

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

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G. O. school bonds	\$ 70,565,000	\$ 13,170,000	\$ 34,635,000	\$ 49,100,000
Certificates of participation	880,930	-	68,254	812,676
Premium on bonds	2,398,406	905,642	61,398	3,242,650
Compensated absences payable	162,820	91,232	81,382	172,670
Total long-term liabilities	<u>\$ 74,007,156</u>	<u>\$ 14,166,874</u>	<u>\$ 34,846,034</u>	<u>\$ 53,327,996</u>

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

**D. Descriptions and Restrictions of Long-Term Liabilities**

In November 2015, the District issued \$5,055,000 G.O. School Building Refund Bonds, Series 2015A for the current refunding of \$5,305,000 of the G.O. School Building Bonds, Series 2006A. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of \$383,254. The net present value cash flow savings from the transaction was \$369,371. The 2006A item was called February 1, 2016.

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 will be called February 1, 2017.

In September 2012, the District issued \$25,930,000 G.O. School Building Refunding Bonds, Series 2012B for the crossover refunding of G.O. School Building Bonds, Series 2005A. The refunding resulted in a decrease in future debt service payments of \$2,460,763. The net present value cash flow savings from the transaction was \$2,110,300. The 2005A item was called on August 1, 2015.

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

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

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

**A. Fund Balances**

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

	General Fund	Debt Service Fund	Other Nonmajor Funds	Total
Nonspendable				
Inventory	\$ 1,137	\$ -	\$ 16,950	\$ 18,087
Prepaid items	86,718	-	1,281	87,999
Total nonspendable	<u>87,855</u>	<u>-</u>	<u>18,231</u>	<u>106,086</u>
Restricted/reserved for				
Staff development	1,735	-	-	1,735
Deferred maintenance	2	-	-	2
Operating capital	5,317	-	-	5,317
Debt service	-	9,333,170	-	9,333,170
Food service	-	-	36,674	36,674
Community education	-	-	91,807	91,807
Early childhood family education	-	-	16,938	16,938
School readiness	-	-	11,827	11,827
Community service	-	-	8,106	8,106
Total restricted/reserved	<u>7,054</u>	<u>9,333,170</u>	<u>165,352</u>	<u>9,505,576</u>
Assigned for				
HRA rollovers	<u>11,503</u>	<u>-</u>	<u>-</u>	<u>11,503</u>
Unassigned	<u>1,287,607</u>	<u>-</u>	<u>-</u>	<u>1,287,607</u>
Total fund balance	<u>\$ 1,394,019</u>	<u>\$ 9,333,170</u>	<u>\$ 183,583</u>	<u>\$ 10,910,772</u>

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

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

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

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

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

**A. Fund Balances (Continued)**

Restricted/Reserved for Deferred Maintenance – Districts that qualified for deferred maintenance revenue (aid and levy) but have not spent the proceeds must restrict the balance in this code. An independent or special school district that does not qualify to participate in the alternative facilities bonding and levy program under *Minnesota Statutes* 123B.59, subd. 1 para (a) is eligible to receive deferred maintenance revenue per *Minnesota Statutes* 123B.591.

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

Restricted/Reserved for 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**

**Teachers' Retirement Association**

**A. Plan Description**

The 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 city of St. Paul and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

**B. Benefits Provided**

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*

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
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 years ended June 30, 2015 and June 30, 2016, 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	\$ 340,207,590
Deduct Employer contributions not related to future contribution efforts	(704,635)
Deduct TRA's contributions not included in allocation	<u>(435,999)</u>
Total employer contributions	339,066,956
Total non-employer contributions	<u>41,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 380,654,366</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)**

**Teachers' Retirement Association (Continued)**

**D. Merger of DTRFA**

Legislation enacted in 2014 merged the DTRFA with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	<u>6/30/14 CAFR</u>	<u>Restated</u>
Total pension liability	\$ 24,901,612,000	\$ 25,299,564,000
Plan fiduciary net position	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net pension liability	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2015, 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**

Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	8.00%
Wage inflation	3.00%
Projected salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.00%

**Mortality Assumption**

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

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

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

**Teachers' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long -Term Expected Real Rate of Return</u>
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	<u>2</u>	0.50
Total	<u><u>100 %</u></u>	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2015 is 5.73 years. The "Difference between Expected and Actual Experience" and "Changes of Assumptions" use the amortization period of 5.73 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 5 years as required by GASB 68. The "Changes in Proportion" uses a rounded amortization period of 5.0 years.

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

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

**Teachers' Retirement Association (Continued)**

**F. Discount Rate**

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%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 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 available to make all projected future benefit payments of current active and inactive employees. 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. Net Pension Liability**

On June 30, 2016, the District reported a liability of \$8,437,689 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 0.1364% at the end of the measurement period and 0.1450% 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	\$ 8,437,689
State's proportionate share of the net pension liability associated with the District	1,034,755

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 be 2.0% annually to 2.5% annually with no increase to 2.5% projected. The prior year valuation assumed a 2.5% increase commencing July 1, 2034.

For the year ended June 30, 2016, the district recognized pension expense of \$495,146. It also recognized \$182,931 as an increase to pension expense for the support provided by direct aid.

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

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

**Teachers' Retirement Association (Continued)**

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

On June 30, 2016, the District had deferred resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 459,100	\$ -
Net difference between projected and actual earnings on plan investments	-	738,772
Changes in assumptions	648,634	-
Changes in proportion	-	174,531
District's contributions to TRA subsequent to the measurement date	542,201	-
	<u>542,201</u>	<u>-</u>
Total	<u>\$ 1,649,935</u>	<u>\$ 913,303</u>

\$542,201 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, 2017

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

2017	\$ (97,395)
2018	(97,395)
2019	(97,394)
2020	405,254
2021	81,361

**H. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% as well as the liability measured using 1% lower and 1% higher.

District proportionate share of NPL		
1% decrease (7.0%)	Current (8.0%)	1% increase (9.0%)
\$ 12,843,255	\$ 8,437,689	\$ 4,761,117

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

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

**Teachers' Retirement Association (Continued)**

**H. Pension Liability Sensitivity (Continued)**

The Employer'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.

**I. Pension Plan Fiduciary Net Position**

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

**Public Employees' Retirement Association**

**A. Plan Description**

The District participates in the following cost-sharing multiple-employer defined benefit pension 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 Fund (GERF)**

All full-time and certain part-time employees of the District other than teachers are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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

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**

**B. Benefits Provided**

GERF Benefits

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

**C. Contributions**

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were \$198,452. The District's contributions were equal to the required contributions as set by state statute.

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

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

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

**D. Pension Costs**

GERF Pension Costs

At June 30, 2016, the District reported a liability of \$2,389,141 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0461%, which was a decrease of 0.0037% from its proportion measured as of June 30, 2014.

GERF benefit provision changes during the measurement period include (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to *Minnesota Statutes* to make changes to contribution rates less prescriptive and more flexible.

The discount rate used to calculate liabilities for the June 30, 2015, measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of \$208,391 for its proportionate share of GERF's pension expense.

**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)**

At June 30, 2016, the District reported its proportionate share of GERS'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	\$ 23,935	\$ 120,453
Changes in actuarial assumptions	160,729	-
Difference between projected and actual investment earnings	-	247,899
Change in proportion	-	130,356
District's contributions to GERS subsequent to the measurement date	198,452	-
Total	<u>\$ 383,116</u>	<u>\$ 498,708</u>

\$198,452 reported as deferred outflows of resources related to pensions resulting from District contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	\$ (92,752)
2018	(92,752)
2019	(185,083)
2020	56,543



**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:

GERF

<u>Assumptions</u>	<u>GERF</u>
Inflation	2.75 % Per year
Active member payroll growth	3.50 Per year
Investment rate of return	7.90

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9% for GERF. 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 on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50 %
International stock	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	100%	

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.9% for GERF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proportionate share of the GERF net pension liability	\$ 3,756,579	\$ 2,389,141	\$ 1,259,848

**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 GERP's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**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, 2014, the date of the latest actuarial valuation, approximately 13 retirees and their dependents were receiving postemployment health and an estimated 236 active employees are eligible to receive future benefits under the plan. For fiscal year 2016, the District contributed \$ 90,864 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	\$ 104,724
Interest on net OPEB obligation	(4,914)
Amortization of net OPEB interest	6,966
Annual OPEB cost (expense)	<u>106,776</u>
Contributions made	<u>(90,864)</u>
Increase in net OPEB obligation	15,912
Net OPEB obligation - beginning of year	<u>(122,849)</u>
Net OPEB obligation - end of year	<u><u>\$ (106,937)</u></u>

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

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

**C. Annual OPEB Cost and Net OPEB Obligation (Continued)**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2015, and 2016 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/14	\$ 114,972	\$ 159,128	138%	\$ (137,146)
06/30/15	107,229	92,932	87%	(122,849)
06/30/16	106,776	90,864	85%	(106,937)

**D. Funded Status and Funding Progress**

As of July, 1, 2014, the actuarial accrued liability and the unfunded actuarial accrued liability (UAAL) for benefits was \$864,247. The actuarial value of plan assets was \$0. The covered payroll (annual payroll of active employees covered by the plan) was \$9,195.454, and the ratio of the UAAL to the covered payroll was 9.4%.

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, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 4 percent, inflation rate of 2.5 percent, health care trend rates ranging from 7.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. The UAAL is being amortized on a closed basis as a level dollar amount over thirty 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, 2016**

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)
07/01/09	\$ -	\$ 729,975	\$ 729,975	0.0%	\$ 5,206,440	14.0%
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%

\* 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 - GERS 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 Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0498%	\$ 2,339,355	\$ 2,615,489	89.44%	78.7%
2015	0.0461%	2,389,141	2,662,267	89.74%	78.2%

**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- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee 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	100.9%	81.5%
2015	0.1364%	8,437,689	1,034,755	9,472,444	6,922,747	121.9%	76.8%

\* These schedules are intended to show information for ten years. Additional years will be displayed as they become available.



**Independent School District No. 111**  
**Schedule of District Contributions -**  
**GERF Retirement Fund**  
**Last Ten Years\***

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Statutorily</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Statutorily</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>District's Covered-</u> <u>Employee Payroll</u>	<u>Contributions as a</u> <u>Percentage of</u> <u>Covered-</u> <u>Employee Payroll</u>
2014	\$ 189,624	\$ 189,624	\$ -	\$ 2,615,489	7.25%
2015	199,670	199,670	-	2,662,267	7.50%
2016	198,452	198,452	-	2,646,027	7.50%

**Schedule of District Contributions -**  
**TRA Retirement Funds**  
**Last Ten Years\***

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Statutorily</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Statutorily</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>District's Covered-</u> <u>Employee Payroll</u>	<u>Contributions as a</u> <u>Percentage of</u> <u>Covered-</u> <u>Employee Payroll</u>
2014	\$ 463,210	\$ 463,210	\$ -	\$ 6,617,287	7.0%
2015	519,206	519,206	-	6,922,747	7.5%
2016	542,201	542,201	-	7,229,347	7.5%

\* These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

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

**TRA Retirement Funds**

**Changes of benefit terms**

The DTRFA was merged into TRA on June 30, 2015

**Changes of 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%. Details, if necessary, can be obtained from the TRA CAFR.

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## **SUPPLEMENTARY INFORMATION**

**Independent School District No. 111**  
**Watertown, Minnesota**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
**June 30, 2016**

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
<b>Assets</b>			
Cash and investments	\$ 80,819	\$ 271,481	\$ 352,300
Current property taxes receivable	-	136,538	136,538
Delinquent property taxes receivable	-	6,048	6,048
Accounts receivable	-	5,728	5,728
Due from Department of Education	-	25,883	25,883
Due from other Minnesota school districts	-	8,683	8,683
Inventory	16,950	-	16,950
Prepaid items	-	1,281	1,281
Total assets	<u>\$ 97,769</u>	<u>\$ 455,642</u>	<u>\$ 553,411</u>
<b>Liabilities</b>			
Accounts payable	\$ 26,230	\$ 16,380	\$ 42,610
Salaries and benefits payable	119	52,448	52,567
Unearned revenue	17,796	-	17,796
Total liabilities	<u>44,145</u>	<u>68,828</u>	<u>112,973</u>
<b>Deferred Inflows of Resources</b>			
Property taxes levied for subsequent year's expenditures	-	250,807	250,807
Unavailable revenue - delinquent property taxes	-	6,048	6,048
Total deferred inflows of resources	<u>-</u>	<u>256,855</u>	<u>256,855</u>
<b>Fund Balances</b>			
Nonspendable	16,950	1,281	18,231
Restricted	36,674	128,678	165,352
Total fund balances	<u>53,624</u>	<u>129,959</u>	<u>183,583</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 97,769</u>	<u>\$ 455,642</u>	<u>\$ 553,411</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, 2016**

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
<b>Revenues</b>			
Local property taxes	\$ -	\$ 207,719	\$ 207,719
Other local and county revenues	-	792,736	792,736
Revenue from state sources	50,450	267,235	317,685
Revenue from federal sources	264,070	821	264,891
Sales and other conversion of assets	474,292	-	474,292
Total revenues	<u>788,812</u>	<u>1,268,511</u>	<u>2,057,323</u>
<b>Expenditures</b>			
Current			
Pupil support services	-	75,663	75,663
Food service	769,488	-	769,488
Community education and services	-	1,120,511	1,120,511
Capital outlay			
Food service	339	-	339
Community education and services	-	2,567	2,567
Total expenditures	<u>769,827</u>	<u>1,198,741</u>	<u>1,968,568</u>
Net change in fund balances	18,985	69,770	88,755
<b>Fund Balances</b>			
Beginning of year	<u>34,639</u>	<u>60,189</u>	<u>94,828</u>
End of year	<u>\$ 53,624</u>	<u>\$ 129,959</u>	<u>\$ 183,583</u>

**Independent School District No. 111**  
**Uniform Financial Accounting And Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2016**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 General Fund</b>				<b>06 Building Construction Fund</b>			
Total revenue	\$ 15,825,775	\$ 15,825,776	\$ (1)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	15,652,639	15,652,638	1	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	87,855	87,855	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	1,735	1,735	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	2	2	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted fund balance	-	-	-
413 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned fund balance	-	-	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	<b>07 Debt Service Fund</b>			
424 Operating Capital	5,317	5,317	-	Total revenue	\$ 4,946,781	\$ 4,946,780	\$ 1
426 \$ 25 Taconite	-	-	-	Total expenditures	36,916,351	36,916,351	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable fund balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refundings	8,586,304	8,586,304	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
440 Teacher Development and Evaluation	-	-	-	464 Restricted fund balance	746,866	746,866	-
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned fund balance	-	-	-
448 Achievement and Integration	-	-	-				
449 Safe School Crime	-	-	-	<b>08 Trust Fund</b>			
450 Transition for Pre-Kindergarten	-	-	-	Total revenue	\$ 24,390	\$ 24,390	\$ -
451 QZAB and QSCB Payments	-	-	-	Total expenditures	28,720	28,721	(1)
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
453 Unfunded Severance and Retirement Levy	-	-	-	422 Unassigned fund balance (net position)	77,070	77,070	-
<i>Restricted:</i>							
464 Restricted Fund Balance	-	-	-	<b>20 Internal Service Fund</b>			
<i>Committed:</i>				Total Revenue	\$ -	\$ -	\$ -
418 Committed for Separation	-	-	-	Total Expenditures	-	-	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned fund balance (net position)	-	-	-
462 Assigned Fund Balance	11,503	11,503	-				
<i>Unassigned:</i>				<b>25 OPEB Revocable Trust</b>			
422 Unassigned Fund Balance	1,287,607	1,287,606	1	Total revenue	\$ -	\$ -	\$ -
				Total expenditures	-	-	-
<b>02 Food Services Fund</b>				<i>Unassigned:</i>			
Total revenue	\$ 788,812	\$ 788,812	\$ -	422 Unassigned fund balance (net position)	-	-	-
Total expenditures	769,827	769,829	(2)				
<i>Nonspendable:</i>				<b>45 OPEB Irrevocable Trust</b>			
460 Nonspendable fund balance	16,950	16,950	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted/Reserved:</i>				Total expenditures	-	-	-
452 OPEB liabilities not held in trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned fund balance (net position)	-	-	-
464 Restricted fund balance	36,674	36,673	1				
<i>Unassigned:</i>				<b>47 OPEB Debt Service</b>			
463 Unassigned fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
				Total expenditures	-	-	-
<b>04 Community Service Fund</b>				<i>Nonspendable:</i>			
Total revenue	\$ 1,268,511	\$ 1,268,510	\$ 1	460 Nonspendable fund balance	-	-	-
Total expenditures	1,198,741	1,198,739	2	<i>Restricted:</i>			
<i>Nonspendable:</i>				425 Bond refundings	-	-	-
460 Nonspendable fund balance	1,281	1,281	-	464 Restricted fund balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
426 \$ 25 Taconite	-	-	-	463 Unassigned fund balance	-	-	-
431 Community Education	91,807	91,807	-				
432 ECFE	16,938	16,938	-				
440 Teacher Development and Evaluation	-	-	-				
444 School Readiness	11,827	11,827	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	8,106	8,106	-				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

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

**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ending June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 24, 2016.

**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.

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**Internal Control over Financial Reporting**

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 Corrective Action Plan on Internal Control that we consider to be significant deficiencies as audit findings 2015-002 and 2016-001.

**Compliance and Other Matters**

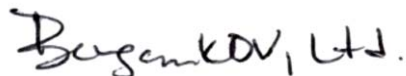
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 Corrective Action Plan on Internal Control. 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 24, 2016



## 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, 2016, and the related notes to financial statements, and have issued our report thereon dated October 24, 2016.

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

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St. Cloud, Minnesota  
October 24, 2016

**Independent School District No. 111  
Watertown-Mayer Schools  
Schedule of Findings and Corrective Action Plan  
on Internal Control  
June 30, 2016**

**Audit Finding 2015-002 – Preparation of Financial Statements**

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

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

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

**CORRECTIVE ACTION PLAN (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.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**Independent School District No. 111  
Watertown-Mayer Schools  
Schedule of Findings and Corrective Action Plan  
on Internal Control  
June 30, 2016**

**Audit Finding 2016-001 – Segregation of Duties**

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

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

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

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
Administration will review current segregation of accounting duties to determine if further segregation is possible.
3. Official Responsible for Ensuring CAP  
The Superintendent is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

