

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

Communications Letter

June 30, 2021



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

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

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2021, 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, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control 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 have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

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

The material weakness identified is stated within this letter.

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 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 18, 2021, 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 18, 2020

Independent School District No. 111
Watertown-Mayer Schools
Material Weakness

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 basic 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 Secretary handles cash receipts and prepares the deposit.

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

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

We have audited the basic 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, 2021. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Basic Financial Statement Audit

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

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

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

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit basic 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 basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our Responsibility in Relation to *Government Auditing Standards*

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

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

Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

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

Qualitative Aspects of Significant Accounting Practices (Continued)

Significant Accounting Estimates (Continued)

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

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

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

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

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

Financial Statement Disclosures

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

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

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

Uncorrected and Corrected Misstatements (Continued)

We identified the following uncorrected misstatements of the basic financial statements. Management has determined their effects are immaterial both individually and in the aggregate, to the basic financial statements taken as a whole and each opinion unit.

- State revenue/receivable

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

Disagreements with Management

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

Representations Requested from Management

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

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Other Information in Documents Containing Audited Basic Financial Statements

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

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

Other Information in Documents Containing Audited Basic Financial Statements (Continued)

With respect to the supplementary information accompanying the basic 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 basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

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

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

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

Average Daily Membership and Pupil Units

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

<u>Year</u>	<u>General Education Aid Formula Allowance</u>	
	<u>Amount</u>	<u>Percent Increase</u>
2012	\$ 5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%

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

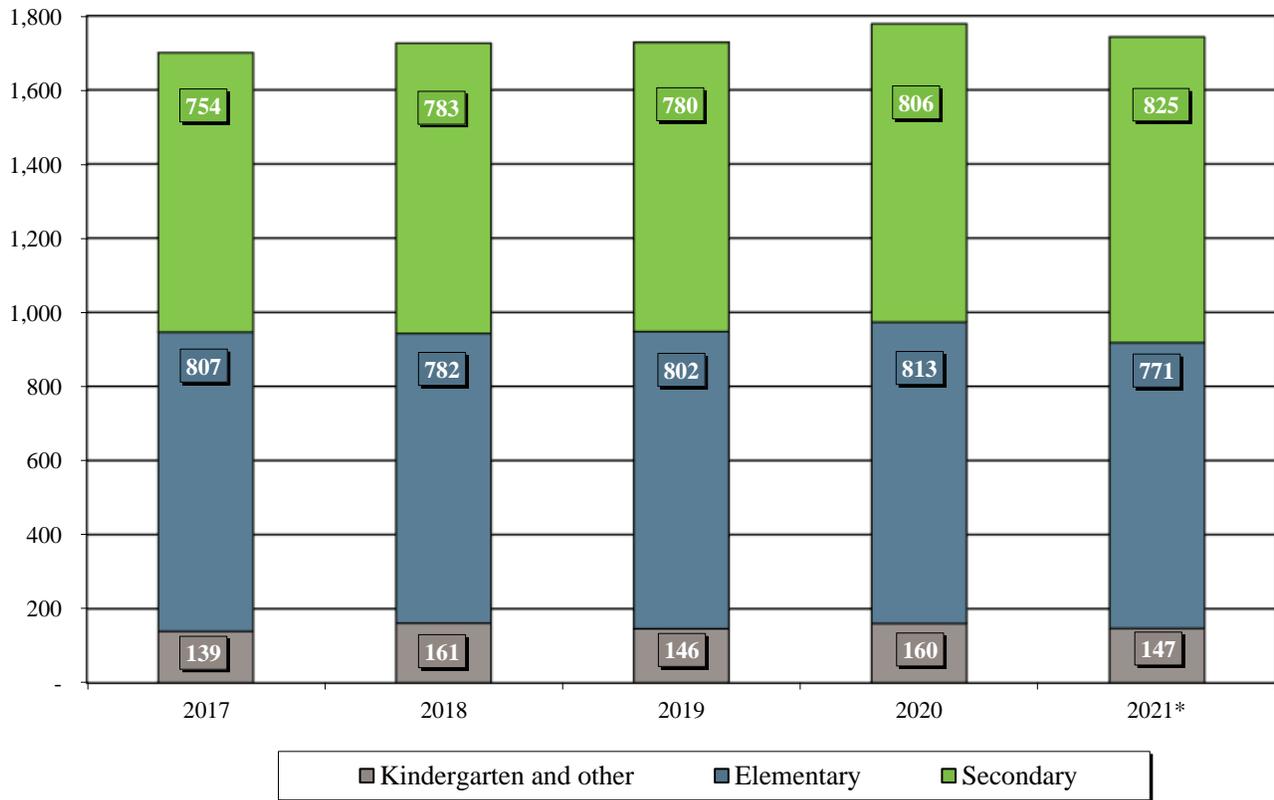
**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

Average Daily Membership and Pupil Units (Continued)

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

Resident ADM	2017	2018	2019	2020	2021*
Kindergarten and other	139	161	146	160	147
Elementary	807	782	802	813	771
Secondary	754	783	780	806	825
Total	1,700	1,726	1,728	1,779	1,743

Student (Average Daily Membership)



* Estimate

Resident ADM has increased 2.5%, or 43 students, over the last five years. However, Resident ADM decreased 2.0%, or 36 students, from 2020 and 2021.

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

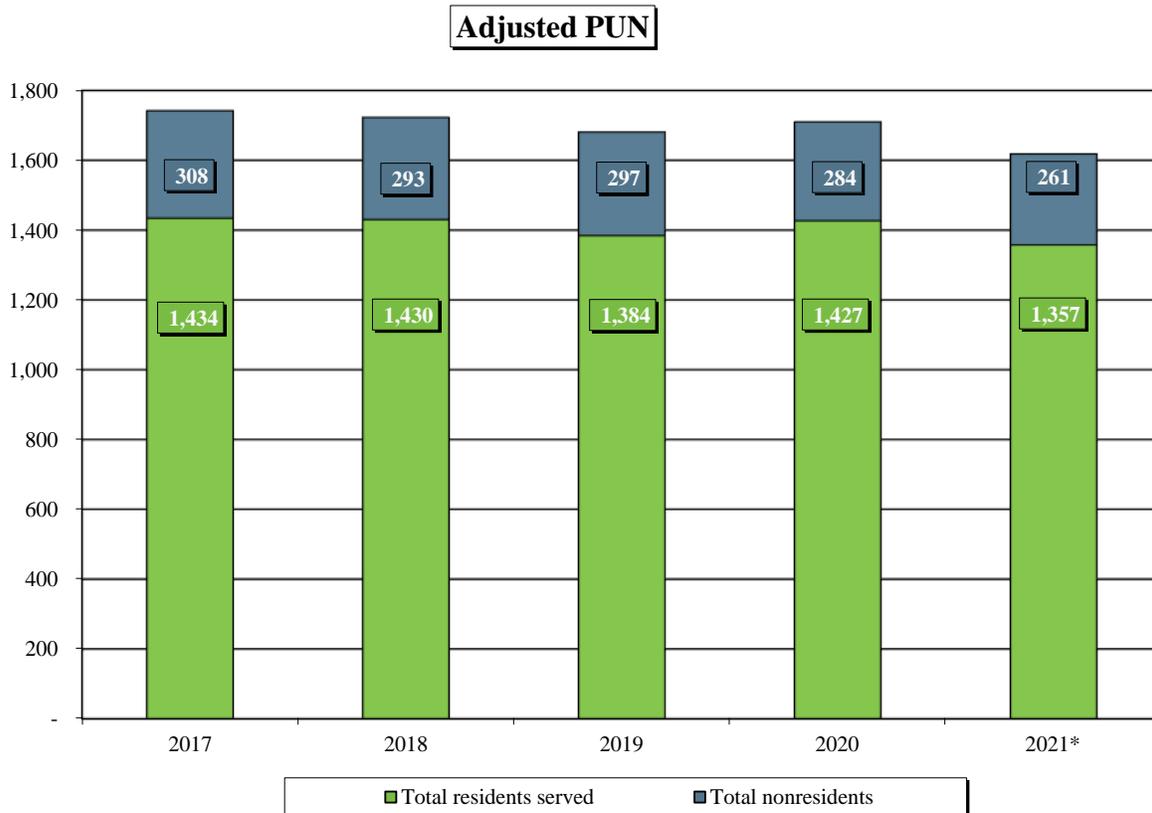
Average Daily Membership and Pupil Units (Continued)

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 and Disabled Kindergarten	Kindergarten	Elementary (1-3/4-6)	Secondary
2017-2021	1.000	1.000	1.000	1.200

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

PUN Served	2017	2018	2019	2020	2021*
Residents	1,850	1,883	1,884	1,940	1,908
Resident PUN going elsewhere	(416)	(453)	(500)	(513)	(551)
Total residents served	1,434	1,430	1,384	1,427	1,357
Total nonresidents	308	293	297	284	261
Total adjusted PUN	1,742	1,723	1,681	1,710	1,618



* Estimate

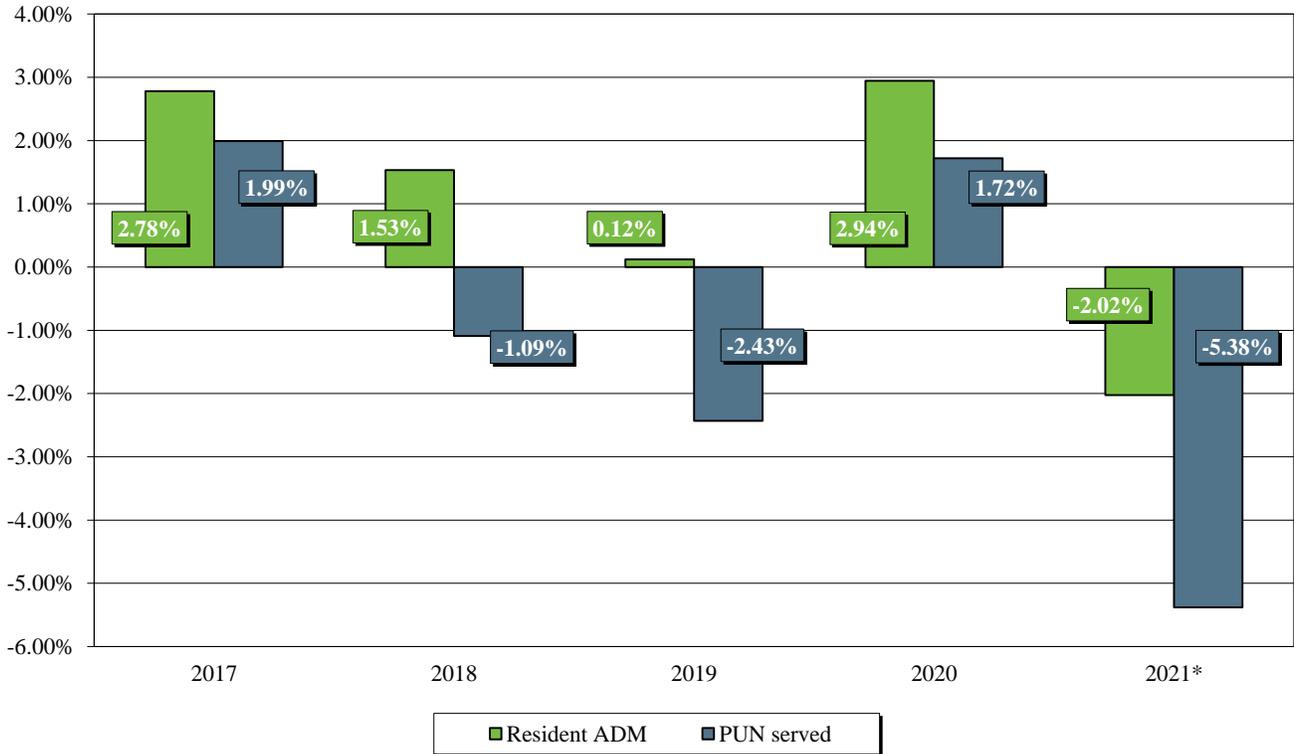
For 2021, PUN decreased 5.4% or 92 students from 2020. Resident PUN going elsewhere increased 7.4%, or 38 students from 2020.

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

Average Daily Membership and Pupil Units (Continued)

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

Change in Resident ADM and Adjusted PUN



* Estimate

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

Revenues and Expenditures Per ADM Served

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

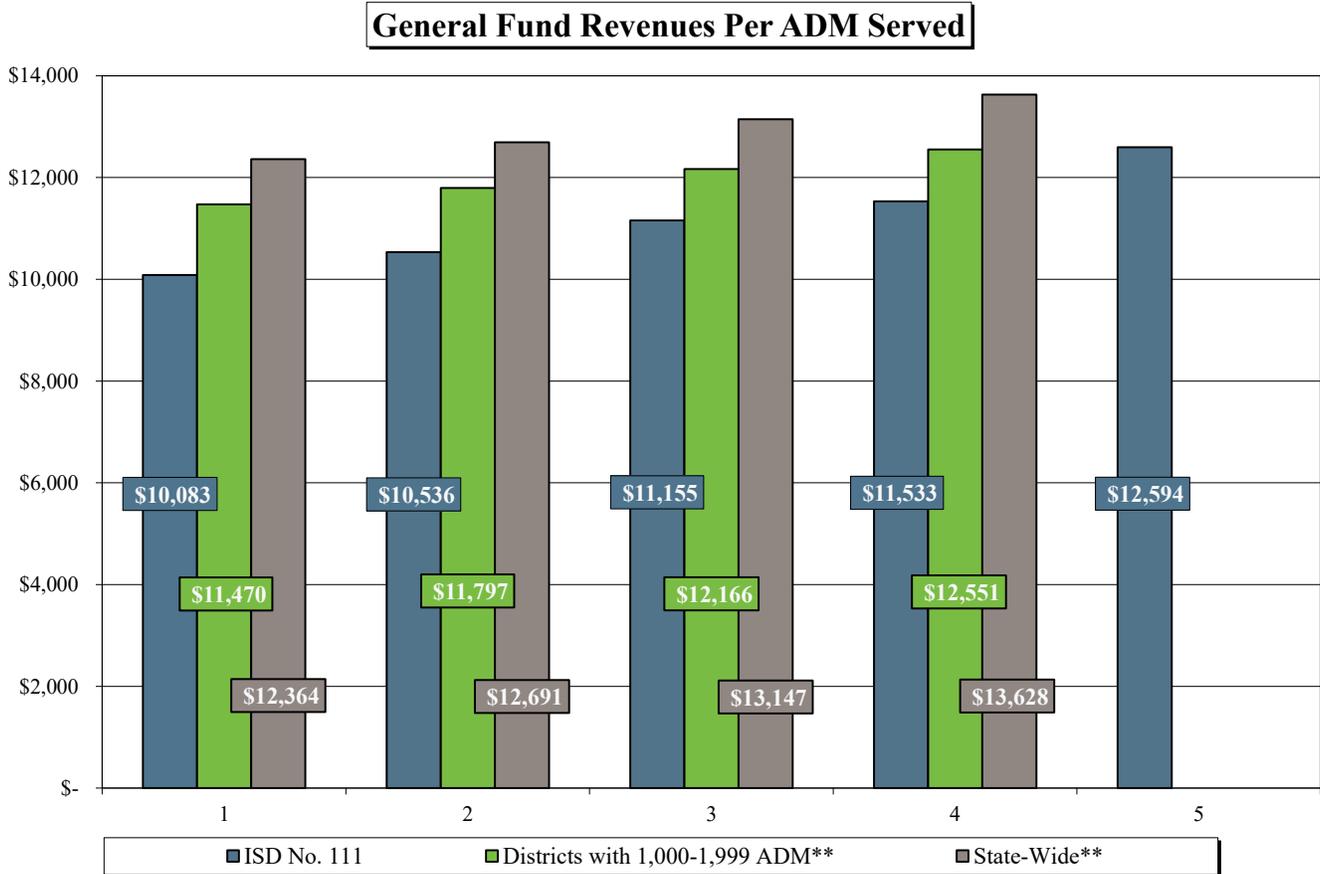
Revenues per student (ADM served) are summarized in the following table:

General Fund	2017	2018	2019	2020	2021*
Property taxes	\$ 919	\$ 1,024	\$ 1,392	\$ 1,436	\$ 1,994
State aid	8,372	8,670	8,904	9,313	9,568
Other	792	842	859	784	1,032
Total General Fund Revenue	\$ 10,083	\$ 10,536	\$ 11,155	\$ 11,533	\$ 12,594
Districts with 1,000-1,999 ADM**					
Property taxes	\$ 1,028	\$ 1,037	\$ 1,094	\$ 1,150	N/A
State aid	9,363	9,670	9,923	10,247	N/A
Other local sources	1,079	1,090	1,149	1,154	N/A
Total General Fund Revenue	\$ 11,470	\$ 11,797	\$ 12,166	\$ 12,551	N/A
State-Wide**					
Property taxes	\$ 1,815	\$ 1,894	\$ 1,996	\$ 2,180	N/A
State aid	9,577	9,821	10,118	10,393	N/A
Other local sources	972	976	1,033	1,055	N/A
Total General Fund Revenue	\$ 12,364	\$ 12,691	\$ 13,147	\$ 13,628	N/A

Revenues per student for the General Fund increased 9.2% from 2020 to 2021 as students served decreased 6.0% and revenues increased 2.3%

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

Revenues and Expenditures Per ADM Served (Continued)



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

ISD No. 111	2017	2018	2019	2020	2021*
General Fund	\$ 9,787	\$ 10,069	\$ 10,714	\$ 11,103	\$ 12,679
General and special revenue	11,103	11,410	12,105	12,617	14,106
Districts with Enrollment of 1,000-1,999**					
General Fund	\$ 11,169	\$ 11,648	\$ 11,975	\$ 12,166	N/A
General and special revenue	12,177	12,651	13,013	13,243	N/A
State Averages**					
General Fund	\$ 12,249	\$ 12,596	\$ 13,025	\$ 13,226	N/A
General and special revenue	13,374	13,752	14,222	14,443	N/A

* Estimate

** State average expenditures per ADM served for the 1,000 to 1,999 group for 2017-2020 as listed in the MDE publication *School District Profiles*. The 2021 information is not yet available.

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

Revenues and Expenditures Per ADM Served (Continued)

Expenditures per student served for the General Fund increased 14.2% from 2020 to 2021 as students served decreased 6.0% and expenditures increased 5.9%.

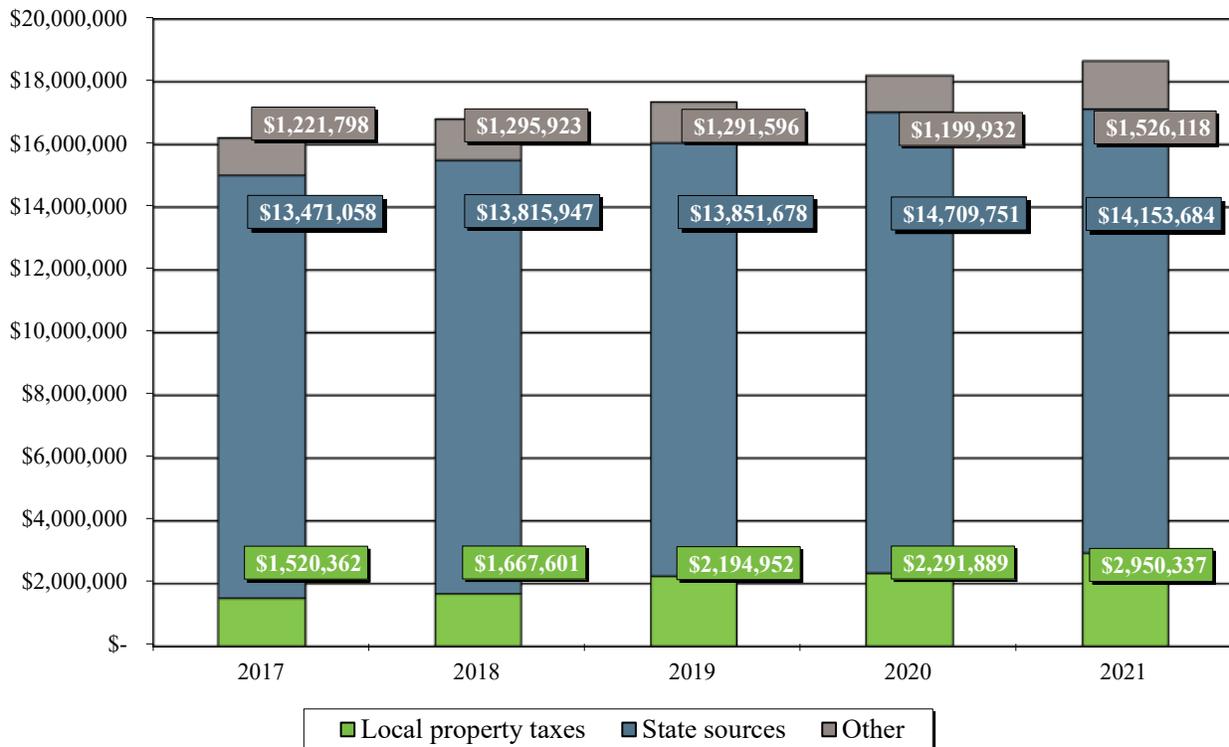
The District's revenues and expenditures per student have been less than similar-sized districts and overall state-wide averages for the past four years where comparative data is available.

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2017	2018	2019	2020	2021
Local property taxes	\$ 1,520,362	\$ 1,667,601	\$ 2,194,952	\$ 2,291,889	\$ 2,950,337
State sources	13,471,058	13,815,947	13,851,678	14,709,751	14,153,684
Other	1,221,798	1,295,923	1,291,596	1,199,932	1,526,118
Total	\$ 16,213,218	\$ 16,779,471	\$ 17,338,226	\$ 18,201,572	\$ 18,630,139

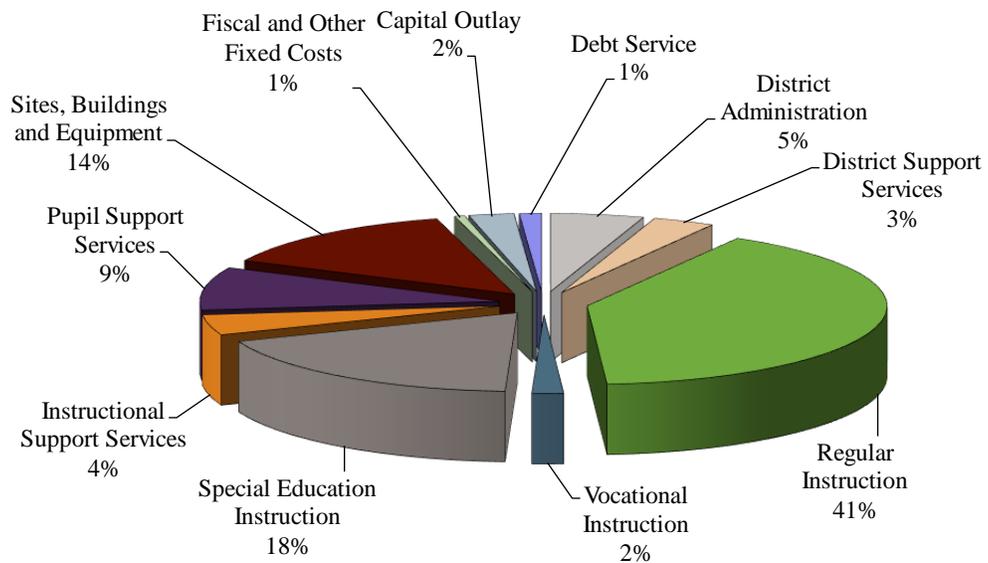
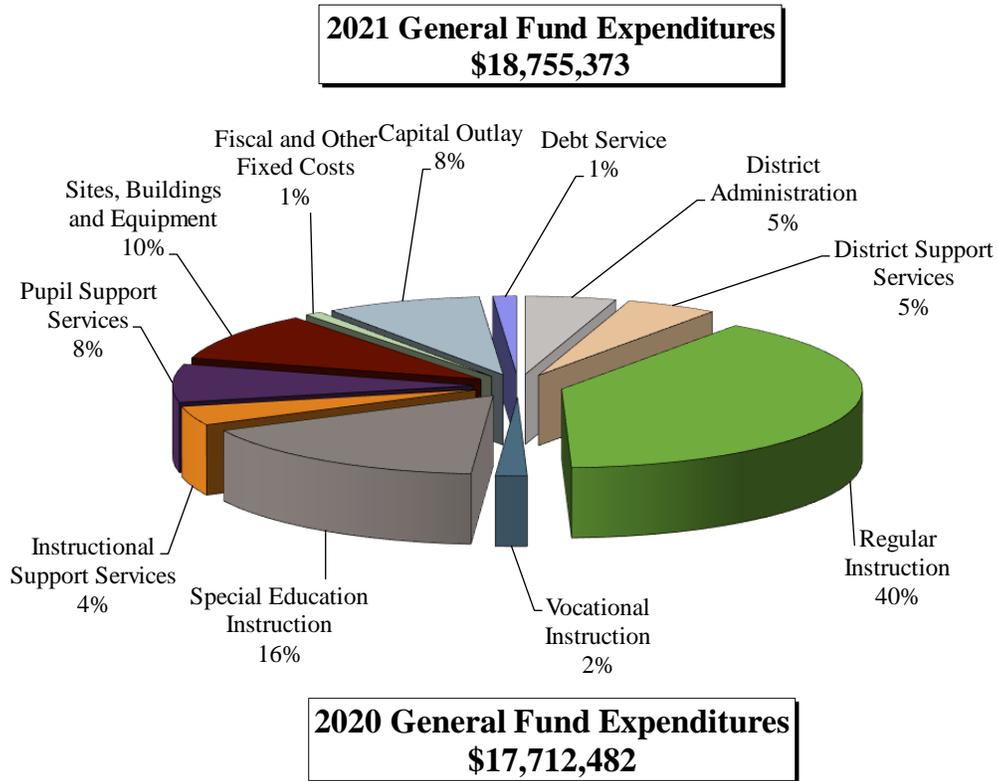
General Fund Sources of Revenue



Total revenue increased \$428,567, or 2.4%, from 2020 to 2021. The most significant portion of the District's funding came from the state in the form of general education revenue. As previously explained, this funding is determined based on student enrollment. Revenue from state sources decreased \$556,067 due to the decrease in ADM partially offset by an increase in the formula allowance.

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

General Fund Expenditures



Expenditures in the General Fund for 2021 increased \$1,042,891, or 5.9%, from 2020. The most significant increase was \$1,143,610 in capital outlay due to increased construction activity. This was offset by a decrease of \$554,219 in sites and buildings with a decrease in LTFM projects when compared to 2020. All other programs remained consistent with the prior year.

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

General Fund Budgeted to Actual

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 2,993,891	\$ 2,957,610	\$ 2,950,337	\$ (7,273)
Other local and county revenues	639,577	481,603	640,060	158,457
Revenue from state sources	13,951,668	14,148,675	14,153,684	5,009
Revenue from federal sources	622,112	1,045,300	885,276	(160,024)
Sales and other conversion of assets	-	-	782	782
Total revenues	18,207,248	18,633,188	18,630,139	(3,049)
Expenditures				
Administration	933,959	933,990	914,656	(19,334)
District support services	744,600	1,066,496	1,282,308	215,812
Elementary and secondary regular instruction	7,416,672	7,804,354	7,452,095	(352,259)
Vocational education instruction	313,182	315,430	318,327	2,897
Special education instruction	3,514,390	3,298,674	3,083,999	(214,675)
Instructional support services	838,215	865,327	749,089	(116,238)
Pupil support services	1,663,343	1,698,490	1,543,120	(155,370)
Sites and buildings	2,196,144	3,134,757	3,002,788	(131,969)
Fiscal and other fixed cost programs	181,131	170,810	170,809	(1)
Debt service	202,587	240,287	238,182	(2,105)
Total expenditures	18,004,223	19,528,615	18,755,373	(773,242)
Excess of revenues over budget	203,025	(895,427)	(125,234)	770,193
Other Financing Sources (Uses)				
	-	1,000,000	1,417,919	417,919
Net change in fund balances	\$ 203,025	\$ 104,573	\$ 1,292,685	\$ 1,188,112

Revenues were under budget by just \$3,049. The largest variance was in revenue from federal sources. This was a result of budgeting for COVID-19 funds that ended up being allocated to other funds. This was offset by other local and county revenues being over budget by \$158,457 due to budgeting conservatively for interest earnings. Expenditures were under budget by 4.0%, or \$773,242. The most significant variance was in regular instruction. This was due to budgeting conservatively for staffing costs.

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

General Fund Operations

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

For the Year Ended June 30,	2017	2018	2019	2020	2021
Revenues	\$ 16,213,218	\$ 16,779,471	\$ 17,338,226	\$ 18,201,572	\$ 18,630,139
Expenditures	15,737,821	16,036,420	16,656,496	17,712,482	18,755,373
Excess of revenues over expenditures	475,397	743,051	681,730	489,090	(125,234)
Plus other sources	-	8,775	15,968	187,137	1,417,919
Fund balance, July 1, restated	1,394,019	1,869,416	2,621,242	3,533,074	4,209,301
Fund Balance, June 30	\$ 1,869,416	\$ 2,621,242	\$ 3,318,940	\$ 4,209,301	\$ 5,501,986

Components of Fund Balance	2017	2018	2019	2020	2021
Nonspendable	\$ 84,496	\$ 90,546	\$ 94,213	\$ 105,728	\$ 107,624
Restricted/reserved for					
Staff development	1,220	1,220	1,220	229	-
Deferred maintenance	-	-	-	-	-
Alternative program	-	-	2,737	7,723	-
Student activities	-	-	-	160,539	149,752
Operating capital	-	-	2,586	2,400	359,946
Long term facilities maintenance	21,831	268,236	451,937	296,868	623,951
Medical assistance	128,433	218,717	191,556	207,198	333,052
Basic skills	-	-	-	4,031	-
Safe school crime	-	-	-	20,812	-
Assigned	2,251	1,345	75,101	300,000	300,000
Unassigned	1,631,185	2,041,178	2,499,590	3,103,773	3,627,661
Fund Balance, June 30	\$ 1,869,416	\$ 2,621,242	\$ 3,318,940	\$ 4,209,301	\$ 5,501,986

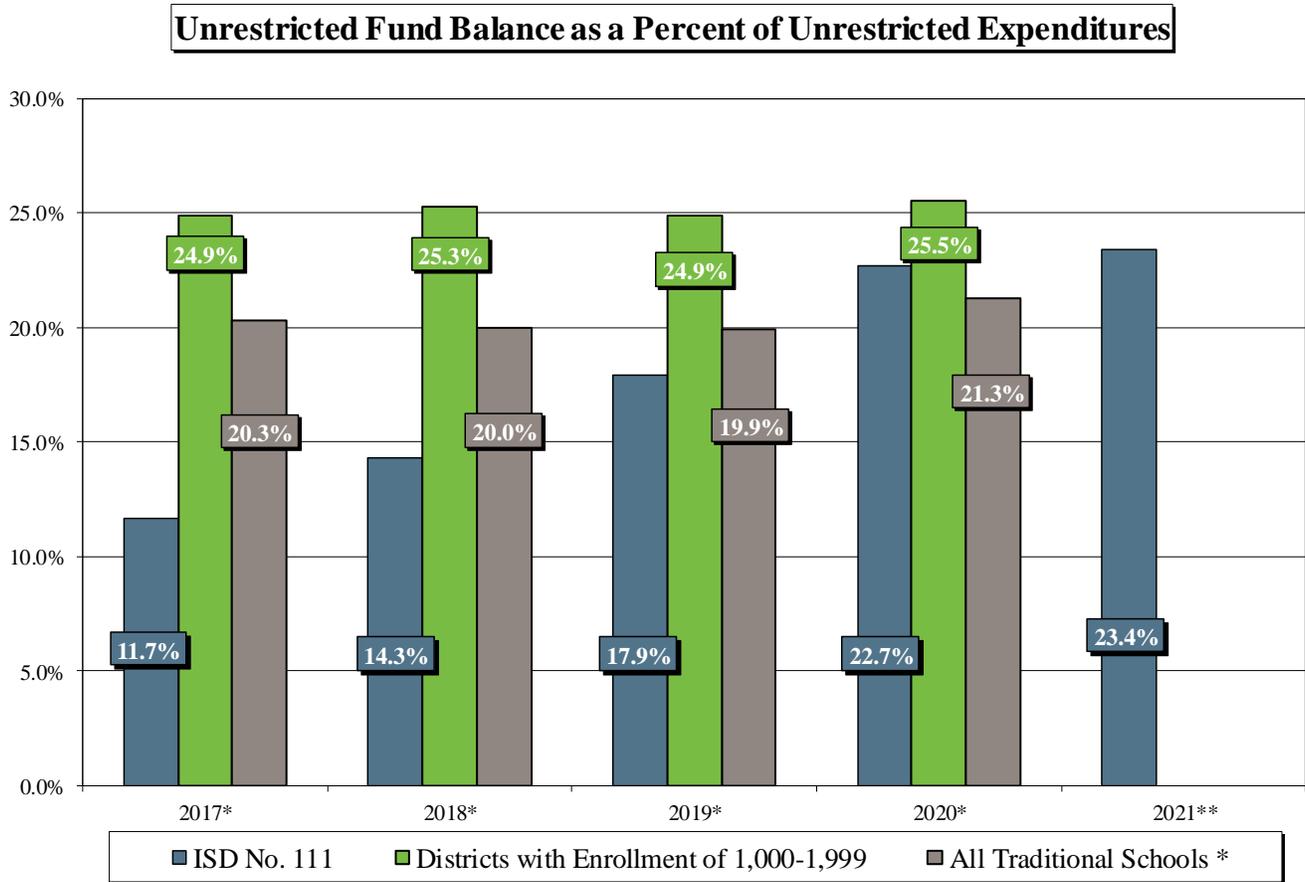
In 2021, the District's revenues increased \$428,567 and expenditures increased \$1,042,891 as discussed earlier. The General Fund balance increased \$1,292,685 as a result of current year activity.

The District's goal is to maintain a minimum unassigned General Fund balance of not less than 7% and not more than 20% of the annual operating expenditures for each year. The unassigned fund balance of \$3,627,661 at June 30, 2021, represents 19.3% of current year expenditures.

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

District Financial Health

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



* Source: *School District Profiles*; 2021 data not yet available.

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

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

Food Service Fund

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

For the Year Ended June 30,	2017	2018	2019	2020	2021
Revenues	\$ 785,321	\$ 725,282	\$ 704,335	\$ 639,835	\$ 535,378
Expenditures	777,229	727,739	663,122	689,390	534,115
Excess of revenues over (under) expenditures	8,092	(2,457)	41,213	(49,555)	1,263
Fund balance, July 1	53,624	61,716	59,259	100,472	50,917
Fund Balance, June 30	\$ 61,716	\$ 59,259	\$ 100,472	\$ 50,917	\$ 52,180

In 2021, revenues exceeded expenditures, resulting in an increase in fund balance of \$1,263. Revenues decreased by \$104,457 and expenditures decreased by \$155,275 as a result of distance learning and decreased ADM's.

Community Service Fund

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

For the Year Ended June 30,	2017	2018	2019	2020	2021
Revenues and transfers in	\$ 1,379,619	\$ 1,446,165	\$ 1,621,746	\$ 1,511,131	\$ 1,690,401
Expenditures	1,331,973	1,399,726	1,491,314	1,692,473	1,577,501
Excess of revenues over (under) expenditures	47,646	46,439	130,432	(181,342)	112,900
Fund balance, July 1	129,959	177,605	224,044	354,476	173,134
Fund Balance, June 30	\$ 177,605	\$ 224,044	\$ 354,476	\$ 173,134	\$ 286,034

In 2021, revenues increased by \$179,270 primarily due to programs having the ability to start running more compared to 2020. Expenditures decreased by \$114,972 due to decreased chargebacks from the General Fund.

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

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

State Aid Appropriations

The formula allowance for 2021 General Education Aid was increased \$129 (2%) to \$6,567. For 2022, the formula allowance is set at \$6,728, and for 2023, the formula allowance is set at \$6,863.

Special Education

One-time additional special education cross subsidy aid of \$10.425 million was approved for 2022 to be allocated based on district's 2021 cross subsidy.

The special education hold harmless guarantee was limited to the sum of 85% in 2021, and will be limited to 80% in 2022, and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.4% in 2021 until the inflation adjustment reaches 2.0%.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

Funding provided includes Governor's Emergency Education Relief (GEER) funding totaling \$38.1 million to MDE to be used for technology and summer school programming. Elementary and Secondary School Emergency Relief (ESSER) funding totaling \$140.1 million is 90% allocated based on 2020 Title I, part A allocations and 9.5% is allocated as grants, with the remaining 0.5% available for administration. Child Nutrition Grants to States funding totaled \$160.3 million. ESSER and GEER funds are eligible for spending through September 30, 2022.

Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act

The CRRSA Act was signed into law on December 27, 2020, and provided an additional \$2.75 billion for the Emergency Assistance for Nonpublic School Fund (EANS Fund) of which \$41,697,717 was awarded to Minnesota. Funds are eligible for spending through September 30, 2023.

American Rescue Plan (ARP) Act

The ARP Act was signed into law on March 11, 2021, and focuses on returning to, and maintaining, safe in-person learning for all students.

The ARP includes \$1.3 billion for E-12 education in ESSER funds for Minnesota to help schools returning to, and maintaining, safe in-person learning for all students. Per the federal law, 90% of these funds have been allocated to eligible districts and charter schools. 9.5% of these funds are for flexible use by each state education agency to create a plan to meet the needs of students. Funds are eligible for spending through September 30, 2024.

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

Property Tax Bill

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. The credit is increased to 50% for taxes payable in 2020, 55% for taxes payable in 2021, 60% for taxes payable in 2022, and 70% for taxes payable in 2023 and thereafter. Estimated property tax relief totals \$10.9 million for pay 2020, \$18.2 million for pay 2021, and \$27.2 million for pay 2022.

Voluntary Prekindergarten (VPK)/School Readiness Plus

For 2022 and 2023 only, the 4,000 seats currently expiring after 2021 will continue to be funded.

Pension Bill

Augmentation has been eliminated for TRA members after December 31, 2017, and early retirement subsidies have been phased out.

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

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

The rate of interest paid on refunds of employee contributions to former employees has been reduced from 4% to 3%. TRA required contributions have increased to 7.75% for employees effective for fiscal year 2024. Required employer contributions will increase 0.21% for fiscal year 2019 to fiscal year 2023 and 0.2% in fiscal year 2024 until a required contribution rate of 8.75% is reached. Pension adjustment revenue will increase to match the required contribution increases.

Independent School District No. 111
Watertown-Mayer Schools
Emerging Issue

Executive Summary

The following is an executive summary of financial 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 update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

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

Accounting Standard Update – GASB Statement No. 87 – Leases

The objective of this Statement is to better meet the information needs of basic financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' basic financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

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

Independent School District No. 111
Watertown-Mayer Schools
Emerging Issue

Accounting Standard Update – GASB Statement No. 87 – *Leases (Continued)*

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

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

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

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