

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

Communications Letter

June 30, 2020



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

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

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

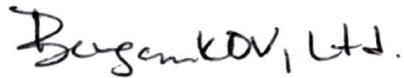
- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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 29, 2020, on such statements.

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

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

St. Cloud, Minnesota
October 29, 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 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.

As a result of the lack of segregation a prior period adjustment was required to correct the capital lease payable.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2020. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

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

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

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

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

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

Our Responsibility in Relation to *Government Auditing Standards*

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

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

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 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.

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

Qualitative Aspects of Significant Accounting Practices (Continued)

Significant Accounting Estimates

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

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

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

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

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

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

Financial Statement Disclosures

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

Significant Difficulties Encountered during the Audit

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

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

Uncorrected and Corrected Misstatements

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

We identified the following uncorrected 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/receivable
- Interest payable

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

Disagreements with Management

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

Representations Requested from Management

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

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

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

Other Information in Documents Containing Audited Financial Statements

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

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

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

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

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

Average Daily Membership and Pupil Units

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

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

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

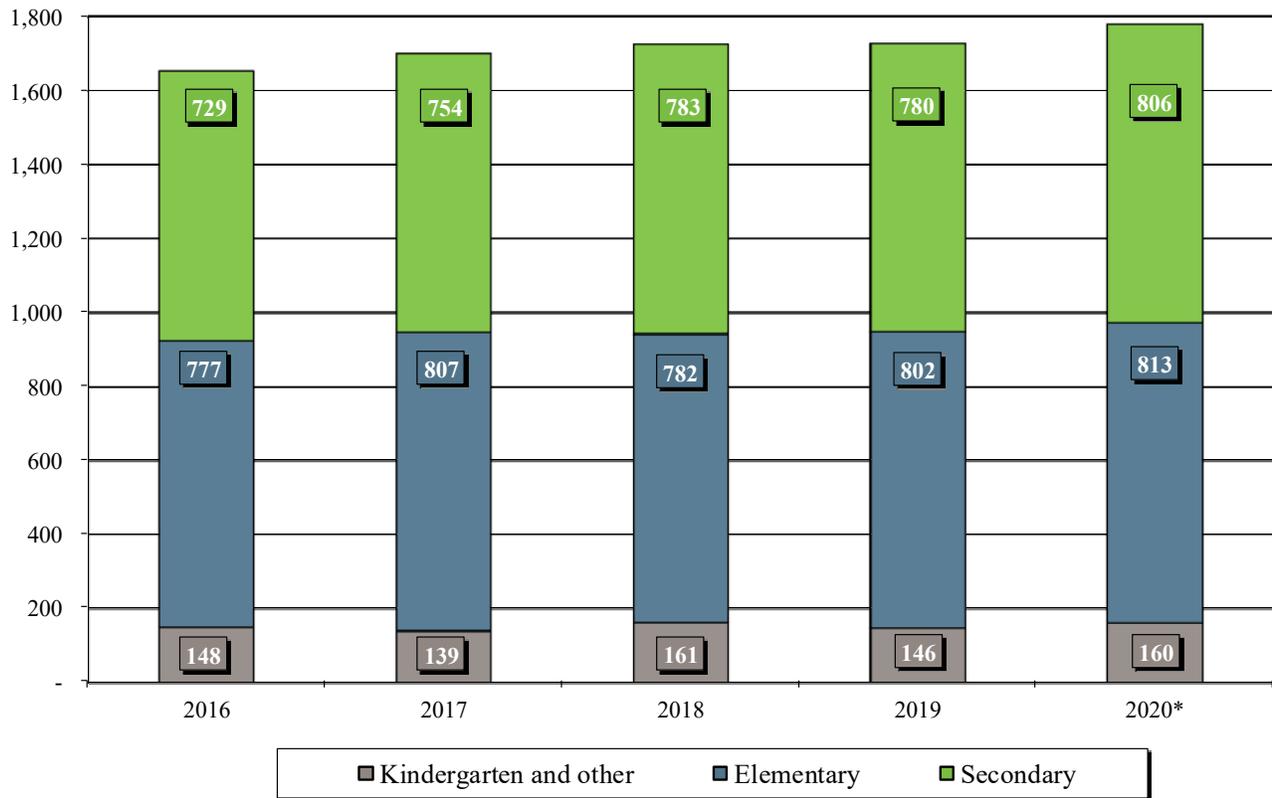
**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

Average Daily Membership and Pupil Units (Continued)

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

Resident ADM	2016	2017	2018	2019	2020*
Kindergarten and other	148	139	161	146	160
Elementary	777	807	782	802	813
Secondary	729	754	783	780	806
Total	1,654	1,700	1,726	1,728	1,779

Student (Average Daily Membership)



* Estimate

Resident ADM has increased 7.6%, or 125 students, over the last five years. Also, Resident ADM increased 3.0%, or 51 students, from 2019 and 2020.

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

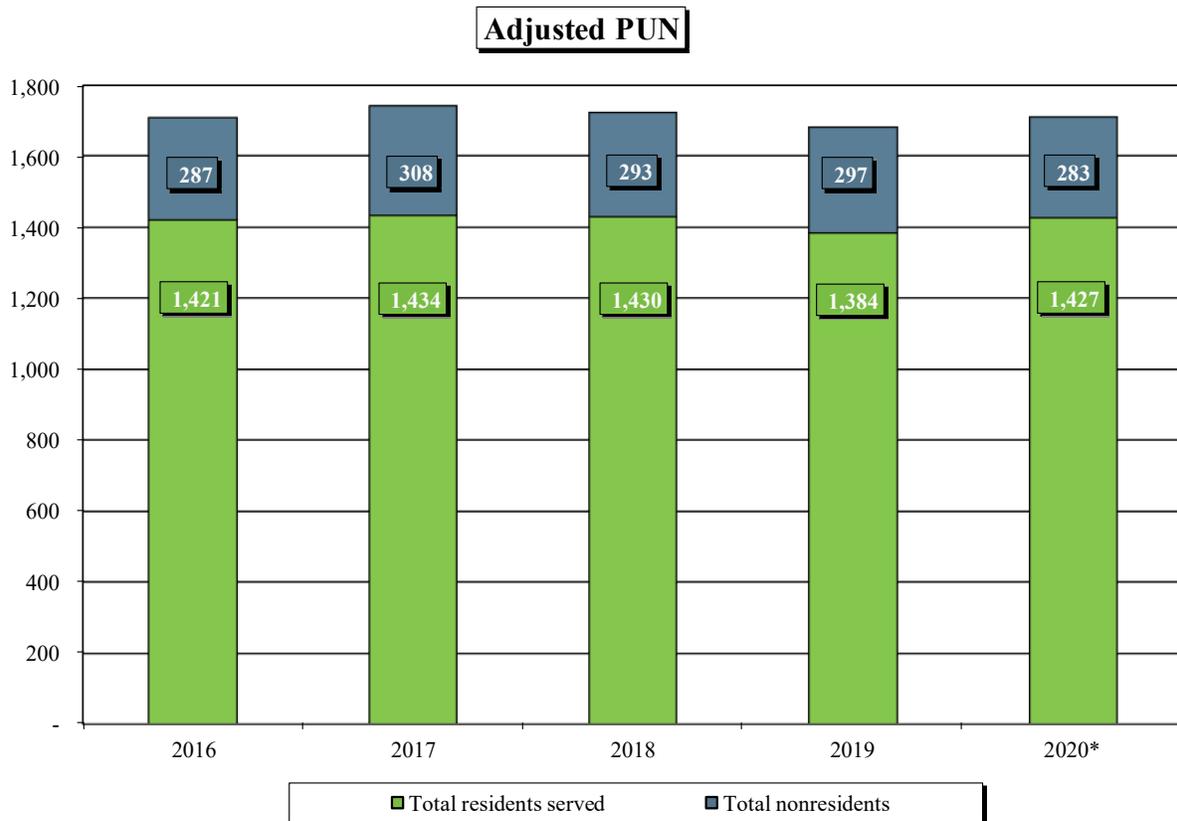
Average Daily Membership and Pupil Units (Continued)

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
2016-2020	1.000	1.000	1.000	1.000	1.000	1.200

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

PUN Served	2016	2017	2018	2019	2020*
Residents	1,800	1,850	1,883	1,884	1,940
Resident PUN going elsewhere	(379)	(416)	(453)	(500)	(513)
Total residents served	1,421	1,434	1,430	1,384	1,427
Total nonresidents	287	308	293	297	283
Total adjusted PUN	1,708	1,742	1,723	1,681	1,710



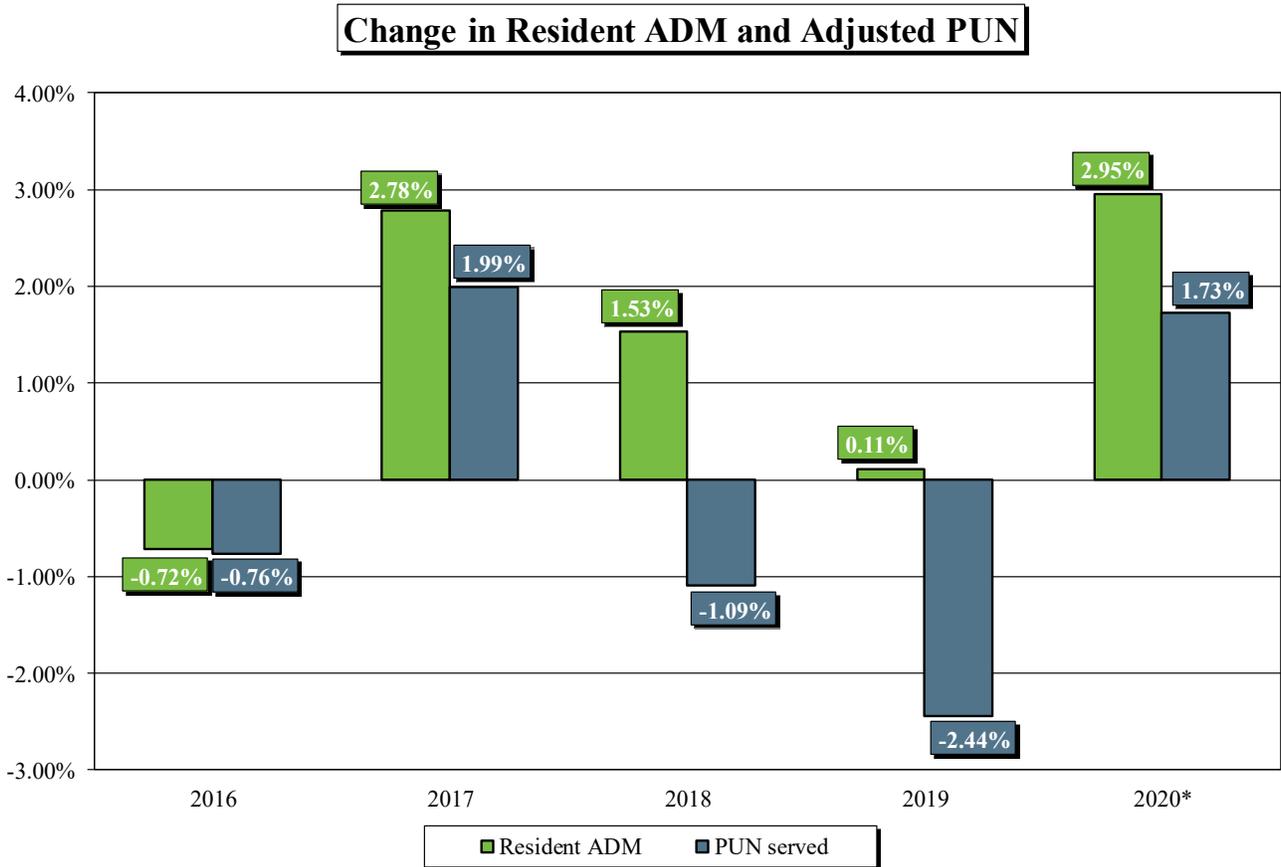
* Estimate

For 2020, PUN increased 1.7% or 29 students from 2019. Resident PUN going elsewhere increased 2.6%, or 13 students from 2019.

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

Average Daily Membership and Pupil Units (Continued)

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



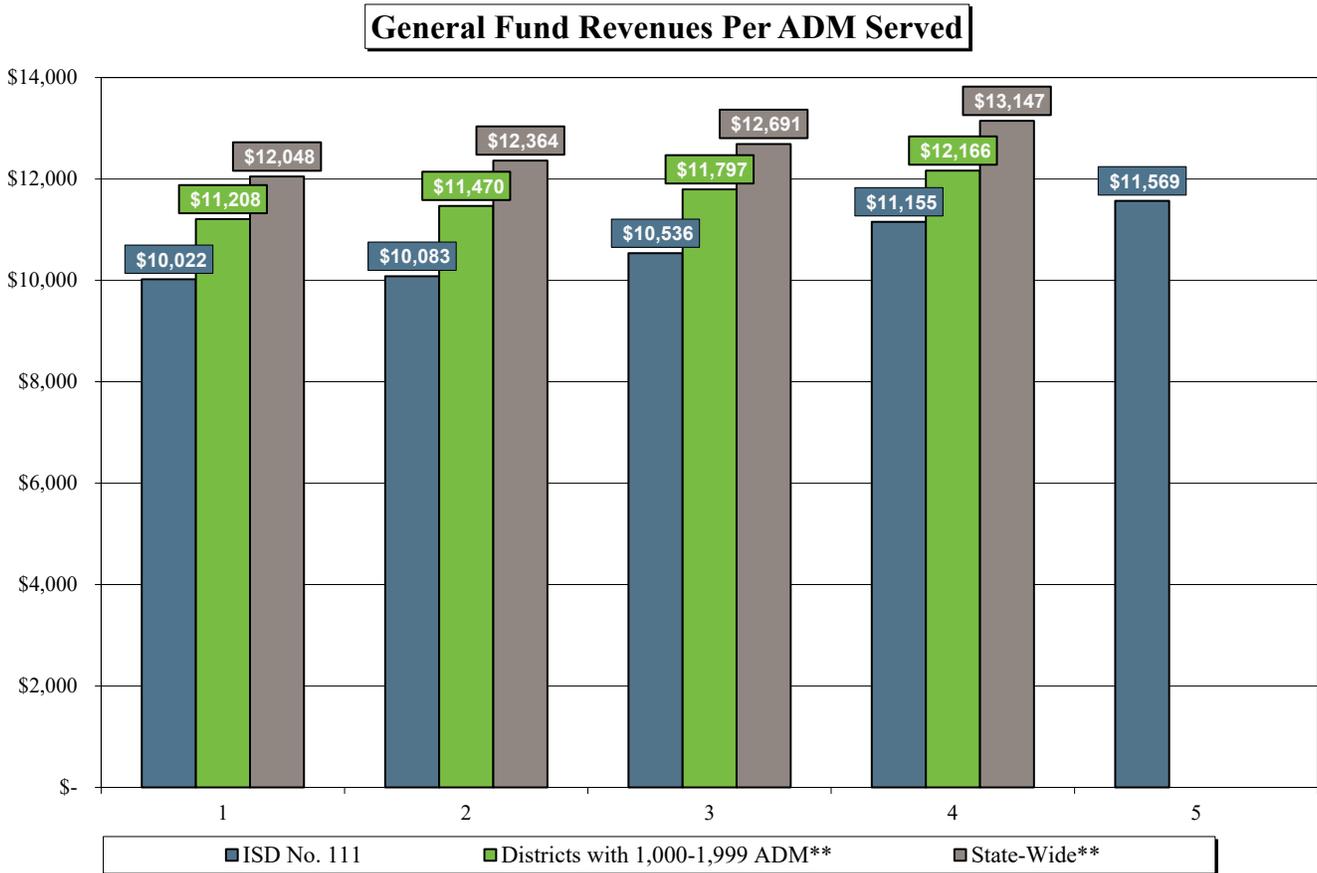
* Estimate

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

Revenues and Expenditures Per ADM Served

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

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



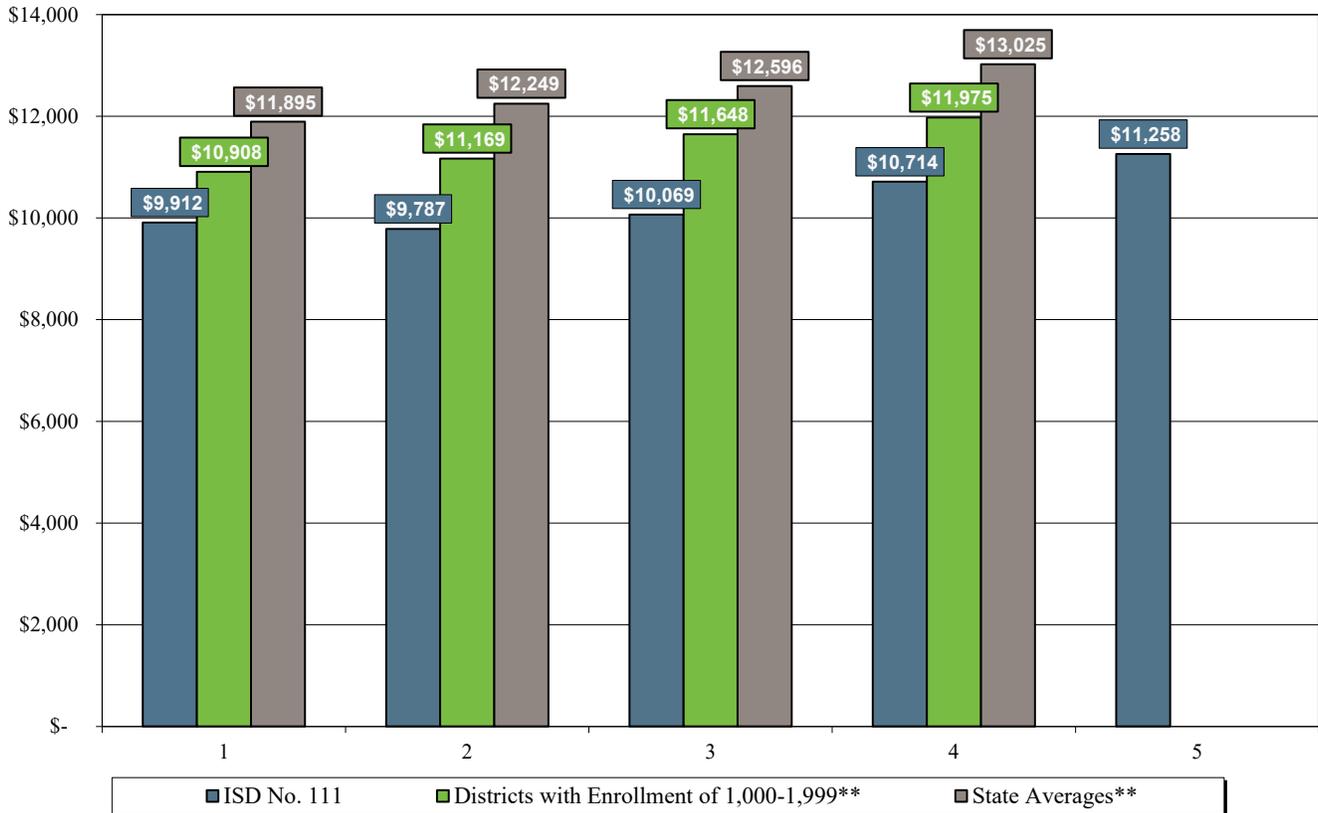
Revenues per student for the General Fund increased 3.7% from 2019 to 2020 as students served increased 1.5% and revenues increased 5.0%

**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:

General Fund Expenditures Per ADM Served



* Estimate

** State average expenditures per ADM served for the 1,000 to 1,999 group for 2016-2019 as listed in the MDE publication *School District Profiles*. The 2020 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 5.1% from 2019 to 2020 as students served increased 1.5% and expenditures increased 6.3%.

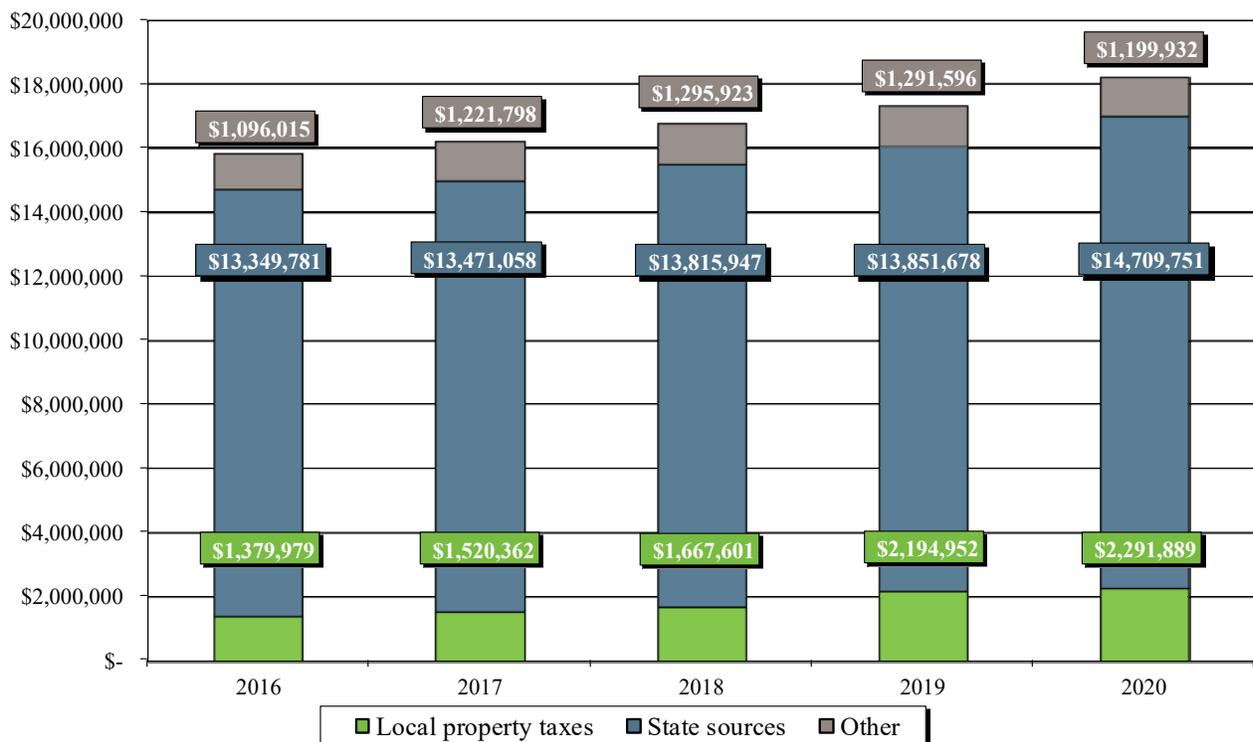
The District's revenues and expenditures per student have been less than similar-sized districts and overall state-wide averages for the past four years where comparative data is available.

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2016	2017	2018	2019	2020
Local property taxes	\$ 1,379,979	\$ 1,520,362	\$ 1,667,601	\$ 2,194,952	\$ 2,291,889
State sources	13,349,781	13,471,058	13,815,947	13,851,678	14,709,751
Other	1,096,015	1,221,798	1,295,923	1,291,596	1,199,932
Total	\$ 15,825,775	\$ 16,213,218	\$ 16,779,471	\$ 17,338,226	\$ 18,201,572

General Fund Sources of Revenue

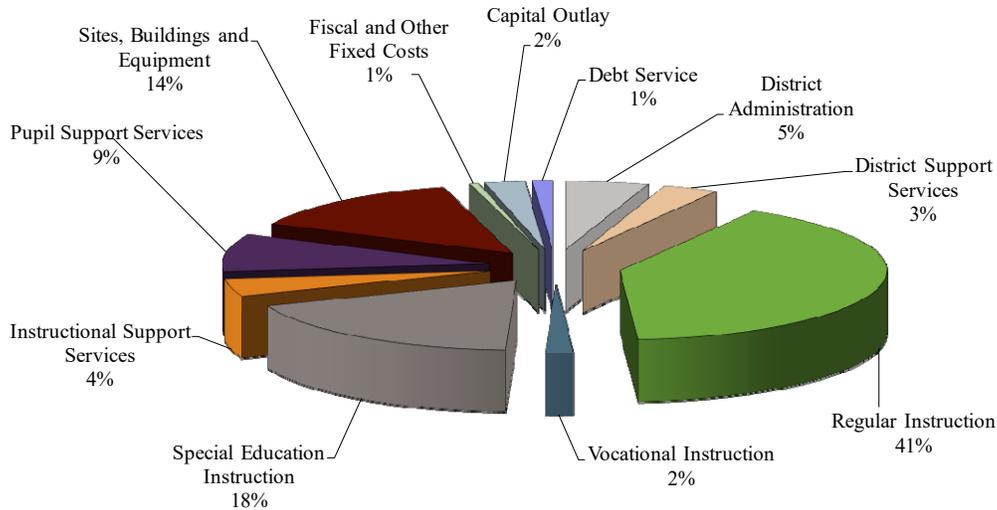


Total revenue increased \$863,346, or 5.0%, from 2019 to 2020. The most significant portion of the District's funding came from the state in the form of general education revenue. As previously explained, this funding is determined based on student enrollment. Revenue from state sources increased \$858,073 due to an increase in the formula allowance, an increase in ADM, an increase in the school safety grant and an increase in special education revenue with increased student needs.

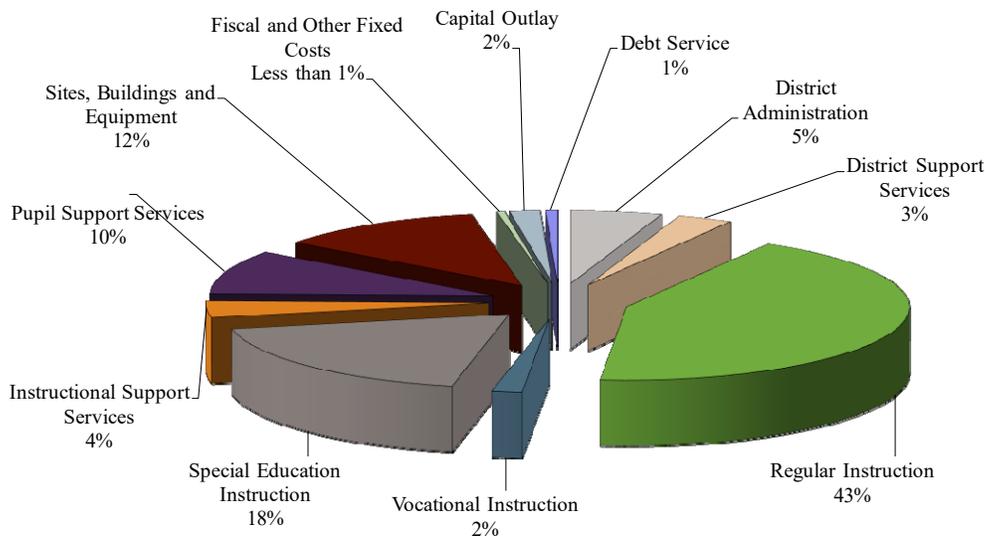
**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

General Fund Expenditures

**2020 General Fund Expenditures
\$17,712,482**



**2019 General Fund Expenditures
\$16,656,496**



Expenditures in the General Fund for 2020 increased \$1,055,986, or 6.3%, from 2019. The most significant increases were \$440,387 in sites and buildings and \$160,153 in special education. The increase in sites and buildings is due to increased LTFM projects. Special education increased with increased need of students. 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	\$ 2,267,554	\$ 2,302,288	\$ 2,291,889	\$ (10,399)
Other local and county revenues	750,430	666,219	663,885	(2,334)
Revenue from state sources	14,081,966	14,435,700	14,709,751	274,051
Revenue from federal sources	434,601	540,919	520,811	(20,108)
Sales and other conversion of assets	-	-	15,236	15,236
Total revenues	17,534,551	17,945,126	18,201,572	256,446
Expenditures				
Administration	900,623	910,799	890,801	(19,998)
District support services	729,487	746,908	774,199	27,291
Elementary and secondary regular instruction	7,447,298	7,415,918	7,244,595	(171,323)
Vocational education instruction	289,178	300,891	300,367	(524)
Special education instruction	3,433,288	3,356,245	3,254,324	(101,921)
Instructional support services	777,340	831,408	743,059	(88,349)
Pupil support services	1,576,816	1,620,827	1,572,580	(48,247)
Sites and buildings	2,393,177	2,610,665	2,621,992	11,327
Fiscal and other fixed cost programs	74,687	97,900	97,866	(34)
Debt service	202,204	212,604	212,699	95
Total expenditures	17,824,098	18,104,165	17,712,482	(391,683)
Excess of revenues over (under) budget	(289,547)	(159,039)	489,090	648,129
Other Financing Sources (Uses)				
	-	-	187,137	187,137
Net change in fund balances	\$ (289,547)	\$ (159,039)	\$ 676,227	\$ 835,266

Revenues were over budget by 1.4%, or \$256,446. The largest variance was in revenue from state sources. This was a result of budgeting conservatively for general education revenue student counts and not budgeting for the TRA in-kind contribution. Expenditures were under budget by 2.2%, or \$391,683. 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,	2016	2017	2018	2019	2020
Revenues	\$ 15,825,775	\$ 16,213,218	\$ 16,779,471	\$ 17,338,226	\$ 18,201,572
Expenditures	15,652,639	15,737,821	16,036,420	16,656,496	17,712,482
Excess of revenues over (under) expenditures	173,136	475,397	743,051	681,730	489,090
Plus other sources	135	-	8,775	15,968	187,137
Fund balance, July 1, restated	1,220,748	1,394,019	1,869,416	2,621,242	3,533,074
Fund Balance, June 30	\$ 1,394,019	\$ 1,869,416	\$ 2,621,242	\$ 3,318,940	\$ 4,209,301

Components of Fund Balance	2016	2017	2018	2019	2020
Nonspendable	\$ 87,855	\$ 84,496	\$ 90,546	\$ 94,213	\$ 105,728
Restricted/reserved for					
Staff development	1,735	1,220	1,220	1,220	229
Deferred maintenance	2	-	-	-	-
Alternative program	-	-	-	2,737	7,723
Student activities	-	-	-	-	160,539
Operating capital	5,317	-	-	2,586	2,400
Long term facilities maintenance	-	21,831	268,236	451,937	296,868
Medical assistance	-	128,433	218,717	191,556	207,198
Basic skills	-	-	-	-	4,031
Safe school crime	-	-	-	-	20,812
Assigned	11,503	2,251	1,345	75,101	300,000
Unassigned	1,287,607	1,631,185	2,041,178	2,499,590	3,103,773
Fund Balance, June 30	\$ 1,394,019	\$ 1,869,416	\$ 2,621,242	\$ 3,318,940	\$ 4,209,301

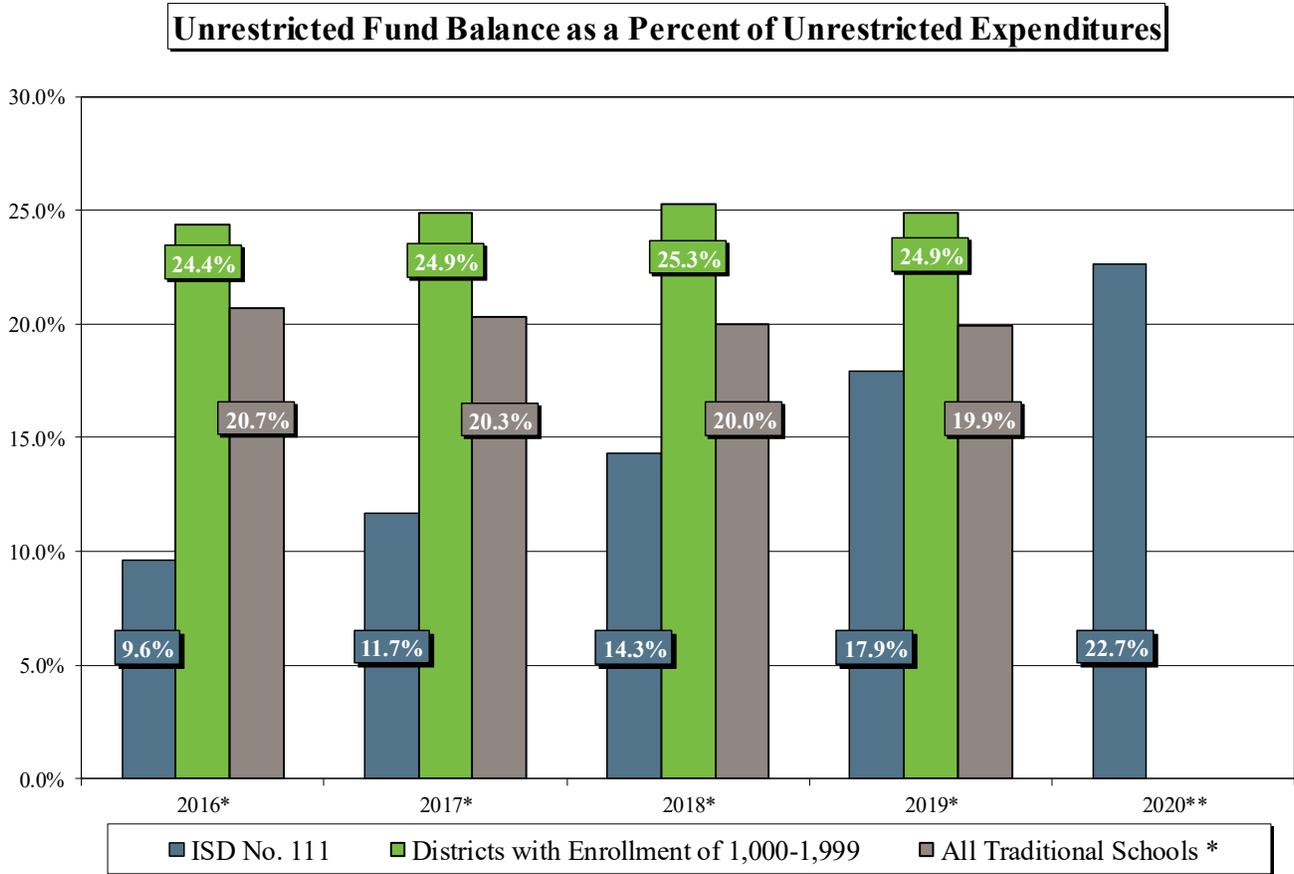
In 2019, the District's revenues increased \$863,346 and expenditures increased \$1,055,986 as discussed earlier. The General Fund balance increased \$676,227 as a result of current year activity. Fund balance also increased \$214,134 due to moving student activities, now under board control and scholarships, with administrative control to the General Fund.

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 \$3,103,773 at June 30, 2020, represents 17.5% 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*; 2020 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,	2016	2017	2018	2019	2020
Revenues	\$ 788,812	\$ 785,321	\$ 725,282	\$ 704,335	\$ 639,835
Expenditures	769,827	777,229	727,739	663,122	689,390
Excess of revenues over (under) expenditures	18,985	8,092	(2,457)	41,213	(49,555)
Fund balance, July 1	34,639	53,624	61,716	59,259	100,472
Fund Balance, June 30	\$ 53,624	\$ 61,716	\$ 59,259	\$ 100,472	\$ 50,917

In 2020, expenditures exceeded revenues, resulting in a decrease in fund balance of \$49,555. Revenues decreased by \$64,500 as a result of lost sales during distance learning. Expenditures increased \$26,268 as a result of additional staffing expenditures to fulfill the summer food service program.

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,	2016	2017	2018	2019	2020
Revenues and transfers in	\$ 1,268,511	\$ 1,379,619	\$ 1,446,165	\$ 1,621,746	\$ 1,511,131
Expenditures	1,198,741	1,331,973	1,399,726	1,491,314	1,692,473
Excess of revenues over expenditures	69,770	47,646	46,439	130,432	(181,342)
Fund balance, July 1	60,189	129,959	177,605	224,044	354,476
Fund Balance, June 30	\$ 129,959	\$ 177,605	\$ 224,044	\$ 354,476	\$ 173,134

In 2020, revenues decreased by \$110,615 primarily due to programs having reduced revenue come in after mid-March due to the COVID-19 pandemic. Expenditures increased by \$201,159 due to additional staffing needs related to emergency childcare offered. At June 30, 2020, all components of fund balance within the Community Service Fund were positive.

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

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

State Aid Appropriations

The formula allowance for 2020 General Education Aid was increased \$126 (2%) to \$6,438. For 2021, the formula allowance is set at \$6,567, which is an increase of \$129, or 2%.

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.

Compensatory Revenue

A percentage of the total compensatory revenue must be used for extended time activities. This percentage was 5.5% for 2020. For 2021 and later, this restriction was eliminated.

Special Education

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

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

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

The special education hold harmless guarantee was limited to the sum of 90% in 2020, and will be limited to 85% in 2021, 80% in 2022, and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.4% in 2021 until the inflation adjustment reaches 2.0%.

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

Formula Adjustments in Response to COVID-19

Special education 2020 expenditures for employees and contracted services that would have been eligible for state aid in the absence of school closures due to COVID-19 must be included as eligible expenditures for the calculation of special education aid and for tuition billing, regardless of whether special education services were actually provided during the closure. State aid savings due to lower meal counts for regular school food service programs are reallocated on a per meal served basis to school providing summer food service meals between March 16, 2020 and June 30, 2020.

MDE is authorized to adjust reimbursement rate for career and technical expenditures to ensure the full expected amount of funding is distributed to schools. Expenditures for individuals who were essential personnel prior to March 13, 2020, and would have been eligible to generate revenue in the absence of school closures due to COVID-19 may be included as eligible expenditures for the calculation of revenue, regardless of whether services were actually provided during the closure.

MDE may adjust 2020 transportation expenditures used to determine future aid to ensure the full amount of transportation aid, and interdistrict desegregation or integration transportation aid is equitable amount districts.

MDE may recalculate the contact hour reimbursement rate for 2021 or otherwise adjust the formula to fully spend the estimated adult basic education aid.

Tests administered during the 2019-2020 school year are excluded from the three-year averages used in computing literacy incentive aid for fiscal years 2021, 2022, and 2023, and allows the commissions to adjust formula rates for these years to ensure total aid does not fall below the amount estimated in the February 2020 forecast.

School age care revenue for fiscal years 2020 and 2021 only, received for spending on or after March 18, 2020, continues at its approved amounts. Program funds may be reallocated consistent with the process and limitations of the fund transfer provisions in the education bill.

After-school enrichment revenue for fiscal years 2020 and 2021 only, received for spending on or after March 18, 2020, may be reallocated consistent with the process and limitations of the fund transfer provisions in the education bill.

Early childhood screening aid for fiscal years 2020 and 2021 will be calculated using the formula amounts set in statute for each age group and the 2018-2019 school year counts of children screened for each age group.

School districts may carry over any unspent achievement and integration funds from its approved budget for fiscal year 2020 into 2021. If spent for approved purposes in fiscal year 2021, the district would generate additional 2021 revenue over and above the regular formula limitations.

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

Operating Referendum and Local Option Revenue (LOR) Simplification

For fiscal year 2021, the annual recalculation of referendum allowances approved before 2014 based on the amount of LOR a district opts to receive is eliminated. \$300 per pupil unit of referendum revenue is transferred to LOR and the board approved referendum is eliminated. To ensure there is no change in revenue, aid, or levy for any district, a two-tiered levy for LOR is created; Tier 1 of LOR replaces Tier 1 of the referendum. The referendum cap is reduced by \$300 to neutralize the impact of the \$300 transfer to LOR.

Fund Transfers

Emergency Executive Order allows a school district, charter school, or cooperative unit to make operating fund and account transfers for fiscal years 2020 and 2021 for certain costs related to care, transportation, technology, and for certain community service and food service salaries and benefits. Amounts transferred must not be already assigned or encumbered by staff salary and benefits, or otherwise encumbered by federal law. Fund or account transfers must be neutral for the district and not affect aid or levy revenues. Board approval is required, and transfers must be made prior to the UFARS reporting deadline for the fiscal year.

Debt Service Relief

For fiscal year 2021, districts unable to make required debt service payments because of an anticipated delay in property tax receipts may apply for modified cash flow payments under Minnesota Statutes, section 127A.45. The Commissioner of Education may adjust the timing of IDEAS state aid payments.

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.

Effective for 2021, the equalizing factor for tier 2 of the operating referendum was increased from \$510,000 to \$567,000. For 2021, property tax relief totals \$9.4 million.

Safe Schools Supplemental Aid

Funding is contingent based on the 2019 closing balance and will be up to \$30 million. The aid was allocated among districts and charter schools based on total adjusted ADMs for 2018. The one-time aid was paid out on the October 30, 2019 IDEAS payment. Aid must be used for the same purposes as the safe schools levy.

Voluntary Prekindergarten (VPK)/School Readiness Plus

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

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

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

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

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

**Independent School District No. 111
Watertown-Mayer Schools
Emerging 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 financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

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

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

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