

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

**Communications Letter**

**June 30, 2023**



**Independent School District No. 111  
Watertown-Mayer Schools  
Table of Contents**

Report on Matters Identified as a Result of the Audit of the Basic Financial Statements	1
Material Weakness	3
Required Communication	4
Financial Analysis	9
Legislative Summary	21
Emerging Issues	25

## 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, 2023, 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 November 22, 2023, on such statements.

This purpose of this communication, which is an integral part of our audit, is to describe for management, the School Board, others within the District, and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

*BergankDV, Ltd.*

St. Cloud, Minnesota  
November 22, 2022

**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.
- A material audit adjustment related to contracts/retainage payable was required.

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, 2023. 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 the 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.

**Significant Risks Identified**

We have identified the following significant risks of material misstatement:

- Improper revenue recognition specific to property taxes and state aids. Revenue recognition is considered a fraud risk on substantially all engagements as it is generally the largest line item impacting a districts operating results.
- Misappropriation of assets and management override of controls through the journal entry process. This is considered a risk in substantially all engagements.
- If duties cannot be appropriately segregated within the accounting department, there is a risk of misappropriation of assets through payroll.

**Qualitative Aspects of the District's 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 2023. 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 the District's Significant Accounting Practices (Continued)**

*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 related to:

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.

Lease Liability and Right-to-Use Lease Assets – These balances are based on estimates and judgments determined by the District related to the discount rate, lease term, and lease payments.

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 basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic 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 basic financial statements taken as a whole and each applicable opinion unit.

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
- Federal receivable
- Subscription liability

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. The following material misstatement that we identified as a result of our audit procedures was brought to the attention of and corrected by management.

- Contracts/retainage payable

**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, significant events or transactions that occurred during the year, operating, and regulatory conditions affecting the District, and operational 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 Included in Annual Reports**

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the District's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

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 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.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

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

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

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

**Average Daily Membership and Pupil Units**

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

Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
	2014	\$ 5,302
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%
2023	6,863	2.0%
2024	7,138	4.0%
2025	7,281	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.

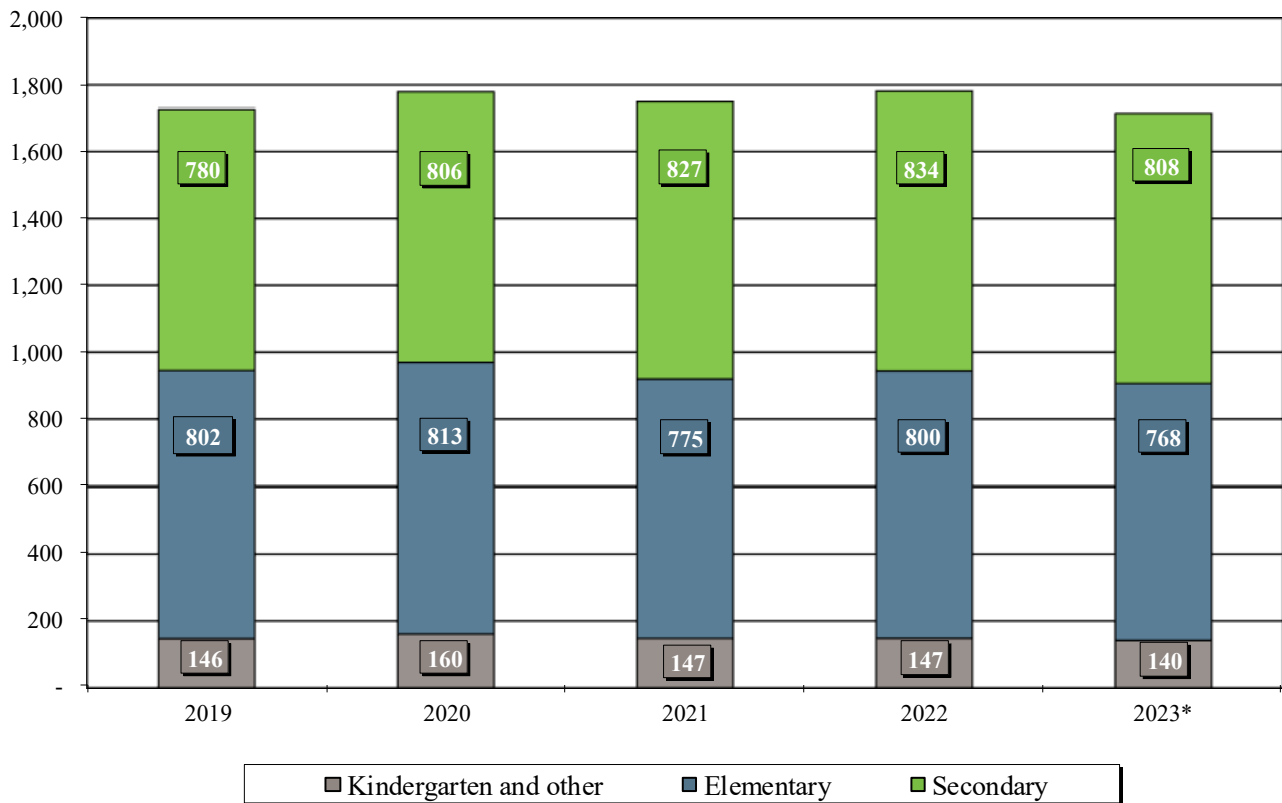
**Independent School District No. 111  
Watertown-Mayer Schools  
Financial Analysis**

**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	2019	2020	2021	2022	2023*
Kindergarten and other	146	160	147	147	140
Elementary	802	813	775	800	768
Secondary	780	806	827	834	808
<b>Total</b>	<b>1,728</b>	<b>1,779</b>	<b>1,749</b>	<b>1,781</b>	<b>1,716</b>

**Student (Average Daily Membership)**



\* Estimate

Resident ADM has decreased 0.7%, or 12 students, over the last five years. Resident ADM decreased 3.6%, or 65 students, from 2022 to 2023.

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

**Average Daily Membership and Pupil Units (Continued)**

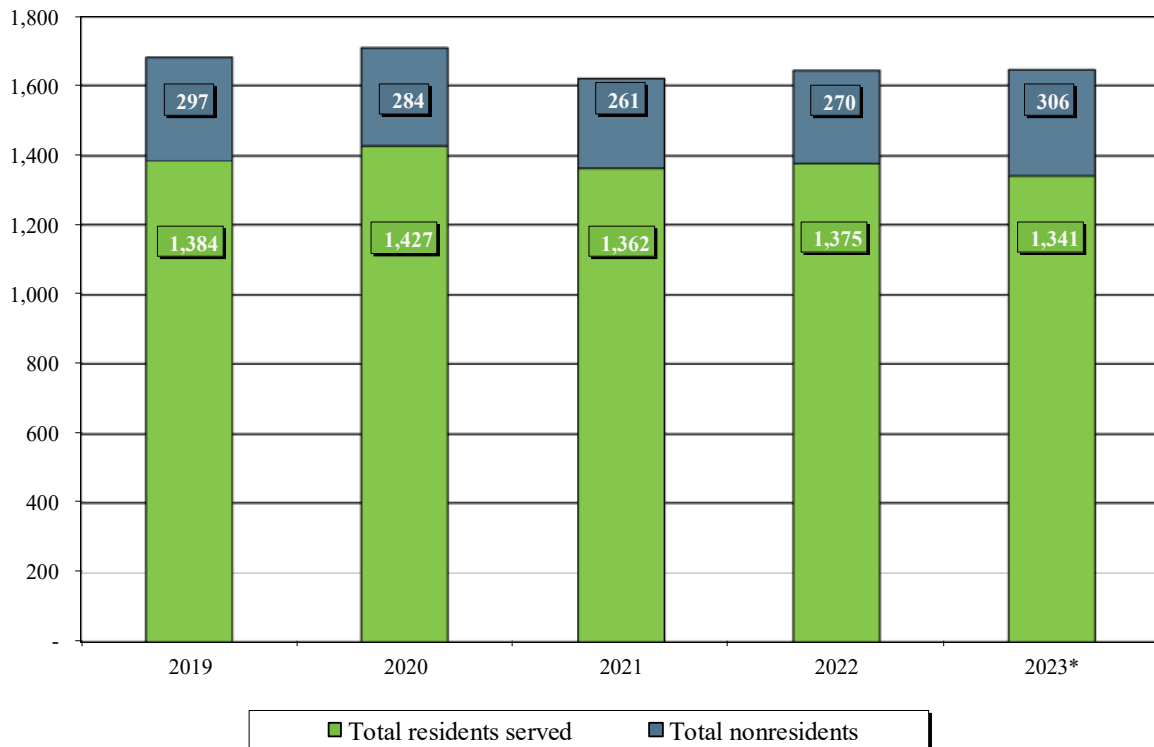
To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting based on the student's grade level. These weighting factors are presented below.

	Pre and Disabled Kindergarten	Kindergarten	Elementary (1-3/4-6)	Secondary
<b>2019-2023</b>	1.000	1.000	1.000	1.200

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

<b>PUN Served</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023*</b>
Residents	1,884	1,940	1,914	1,948	1,878
Resident PUN going elsewhere	(500)	(513)	(552)	(573)	(537)
Total residents served	1,384	1,427	1,362	1,375	1,341
Total nonresidents	297	284	261	270	306
<b>Total adjusted PUN</b>	<b>1,681</b>	<b>1,711</b>	<b>1,623</b>	<b>1,645</b>	<b>1,647</b>

**Adjusted PUN**



\* Estimate

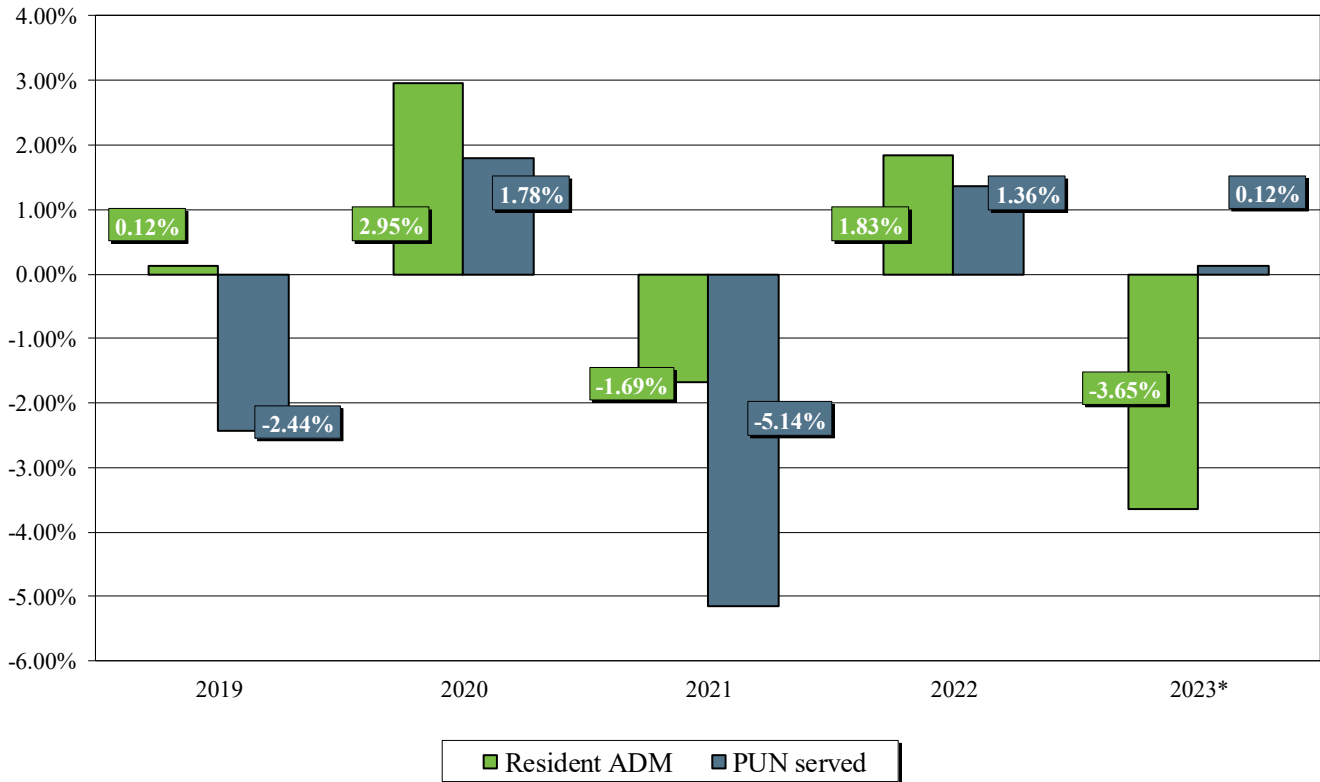
For 2023, PUN increased 0.1% or 2 students from 2022. Nonresident PUN coming in increased 13.3%, or 36 students from 2022.

**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.

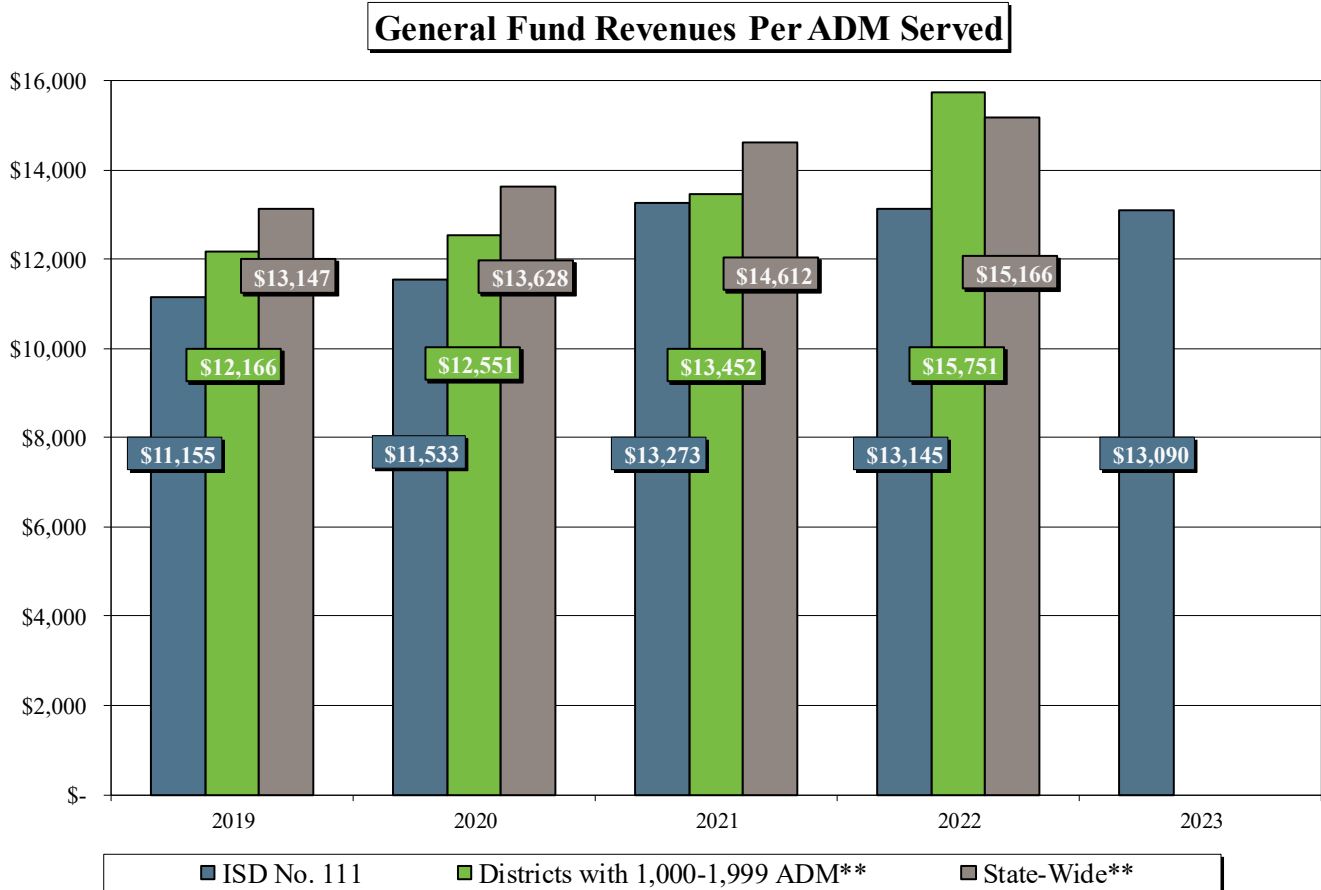
Revenues per student (ADM served) are summarized in the following table:

<b>General Fund</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023*</b>
Property taxes	\$ 1,392	\$ 1,436	\$ 1,959	\$ 1,898	\$ 1,939
State aid	8,904	9,313	9,501	9,318	9,562
Other	859	784	1,813	1,929	1,589
<b>Total General Fund Revenue</b>	<b>\$ 11,155</b>	<b>\$ 11,533</b>	<b>\$ 13,273</b>	<b>\$ 13,145</b>	<b>\$ 13,090</b>
<b>Districts with 1,000-1,999 ADM**</b>					
Property taxes	\$ 1,094	\$ 1,150	\$ 1,262	\$ 1,402	N/A
State aid	9,923	10,247	10,591	12,028	N/A
Other local sources	1,149	1,154	1,599	2,321	N/A
<b>Total General Fund Revenue</b>	<b>\$ 12,166</b>	<b>\$ 12,551</b>	<b>\$ 13,452</b>	<b>\$ 15,751</b>	<b>N/A</b>
<b>State-Wide**</b>					
Property taxes	\$ 1,996	\$ 2,180	\$ 2,381	\$ 2,443	N/A
State aid	10,118	10,393	10,758	10,782	N/A
Other local sources	1,033	1,055	1,473	1,941	N/A
<b>Total General Fund Revenue</b>	<b>\$ 13,147</b>	<b>\$ 13,628</b>	<b>\$ 14,612</b>	<b>\$ 15,166</b>	<b>N/A</b>

Revenues per student for the General Fund decreased 0.4% from 2022 to 2023 as students served stayed the same and revenues increased 3.8%.

**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	2019	2020	2021	2022	2023*
General Fund	\$ 10,714	\$ 11,103	\$ 12,408	\$ 13,199	\$ 14,264
General and special revenue	12,105	12,617	13,831	14,887	16,130
<b>Districts with Enrollment of 1,000-1,999**</b>					
General Fund	\$ 11,975	\$ 12,166	\$ 13,037	\$ 15,784	N/A
General and special revenue	13,013	13,243	14,071	16,996	N/A
<b>State Averages**</b>					
General Fund	\$ 13,025	\$ 13,226	\$ 14,167	\$ 15,010	N/A
General and special revenue	14,222	14,443	15,267	16,322	N/A

\* Estimate

\*\* State average expenditures per ADM served for the 1,000 to 1,999 group for 2019-2022 as listed in the MDE publication *School District Profiles*. The 2023 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 8.1% from 2022 to 2023 as students served remained the same and expenditures increased 6.8%.

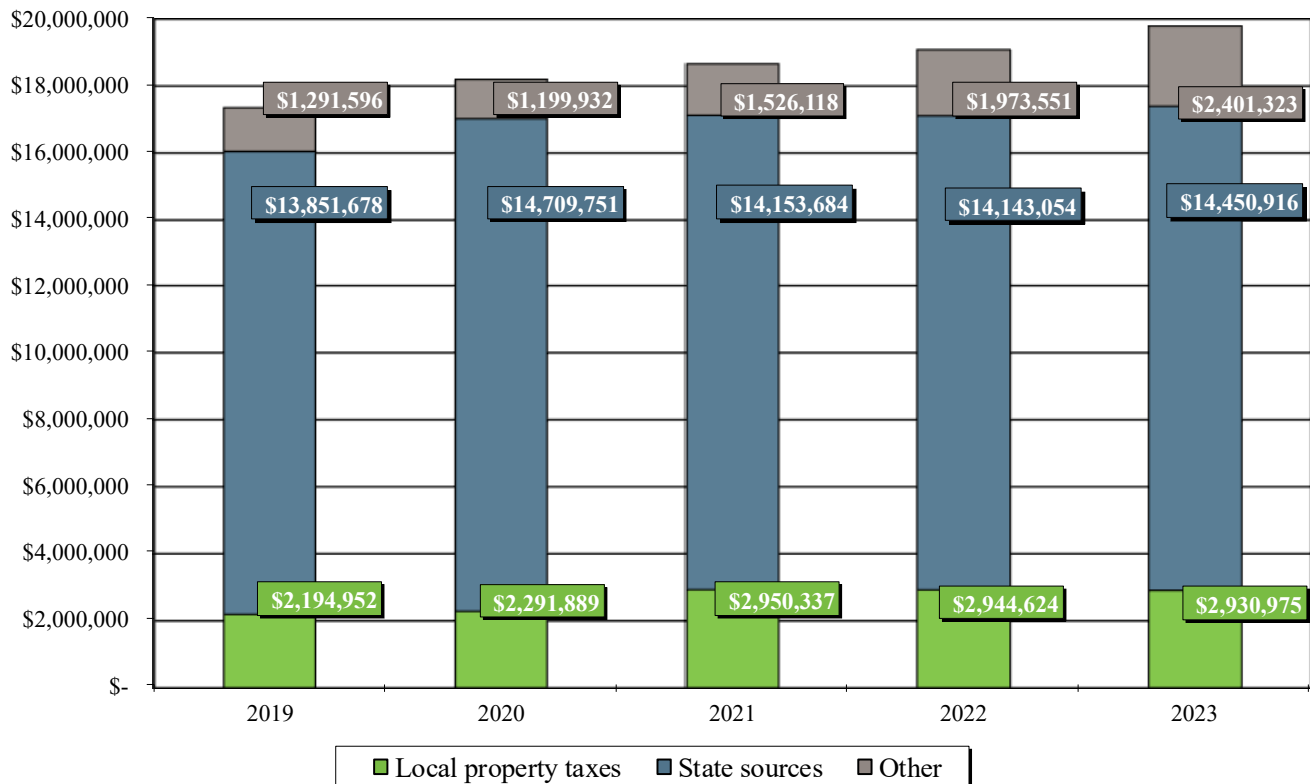
The District's revenues and expenditures per student have been less than similar-sized districts and overall state-wide averages for the past four years where comparative data is available.

**General Fund Sources of Revenue**

General Fund sources of revenue are summarized as follows:

	2019	2020	2021	2022	2023
Local property taxes	\$2,194,952	\$2,291,889	\$2,950,337	\$ 2,944,624	\$ 2,930,975
State sources	13,851,678	14,709,751	14,153,684	14,143,054	14,450,916
Other	1,291,596	1,199,932	1,526,118	1,973,551	2,401,323
<b>Total</b>	<b>\$ 17,338,226</b>	<b>\$ 18,201,572</b>	<b>\$ 18,630,139</b>	<b>\$ 19,061,229</b>	<b>\$ 19,783,214</b>

**General Fund Sources of Revenue**

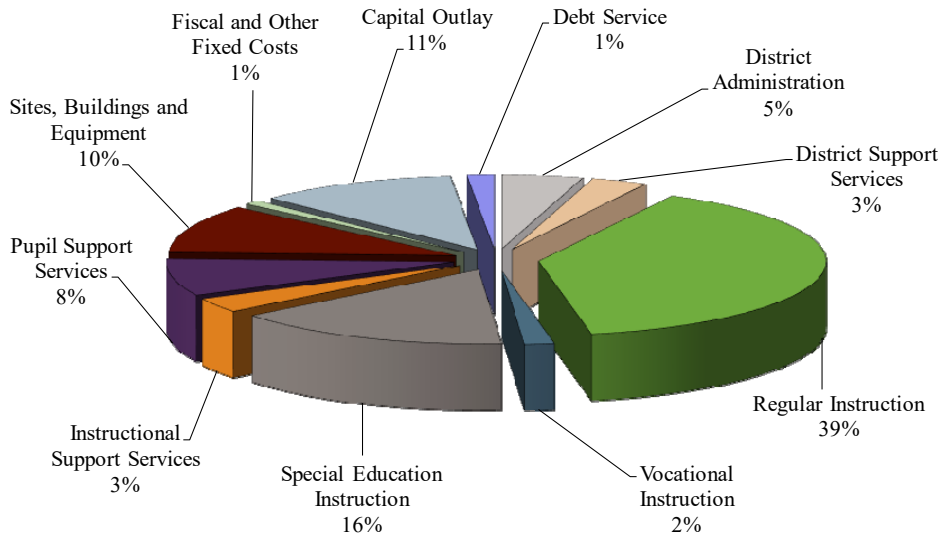


Total revenue increased \$721,985, or 3.8%, from 2022 to 2023. The most significant portion of the District's funding came from the state in the form of general education revenue. As previously explained, this funding is determined based on student enrollment. Revenue from state sources increased \$307,862 due to the increase in formula allowance. Other revenue increased due to an increase in investment income as a result of better market conditions.

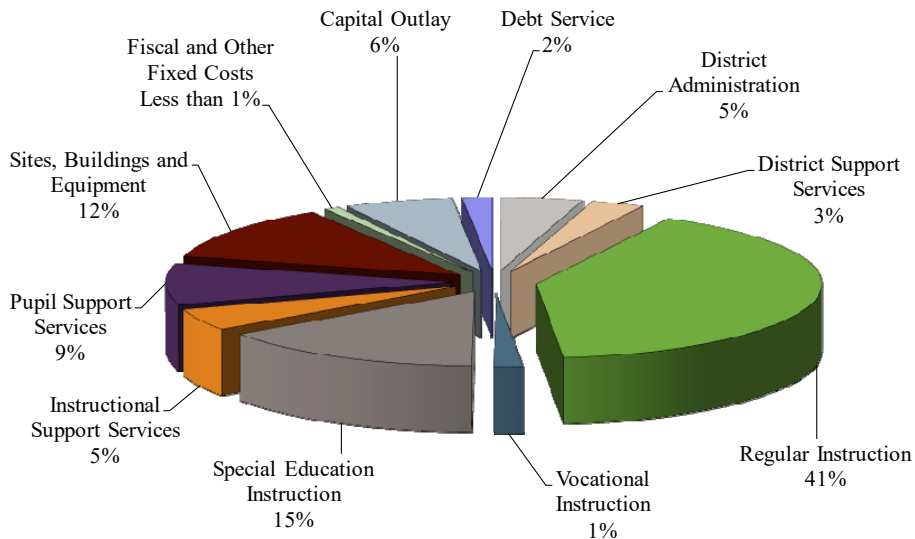
**Independent School District No. 111  
Watertown-Mayer Schools  
Financial Analysis**

**General Fund Expenditures**

**2023 General Fund Expenditures**



**2022 General Fund Expenditures**



Expenditures in the General Fund for 2023 increased \$1,368,856, or 6.8%, from 2022. The most significant increase was \$1,187,140 in Capital Outlay due to the road project being coded to the General Fund until the abatement bond is complete. Instructional Support Services decreased \$281,809 due to EFC tech devices purchased in 2022 and no such purchases in 2023. Special Education Instruction increased \$324,172 due to hiring more staff. Regular Instruction increased mainly due to salary increase, and more employees being enrolled in benefits.

**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		
<b>Revenues</b>				
Local property taxes	\$ 2,920,776	\$ 2,939,281	\$ 2,930,975	\$ (8,306)
Other local and county revenues	678,549	1,140,822	1,385,607	244,785
Revenue from state sources	14,688,200	14,638,586	14,450,916	(187,670)
Revenue from federal sources	1,105,165	1,049,977	1,015,262	(34,715)
Sales and other conversion of assets	-	(17)	454	471
<b>Total revenues</b>	<b>19,392,690</b>	<b>19,768,649</b>	<b>19,783,214</b>	<b>14,565</b>
<b>Expenditures</b>				
Administration	964,056	974,797	978,305	3,508
District support services	907,021	896,277	871,039	(25,238)
Elementary and secondary regular instruction	8,527,325	8,787,498	8,544,373	(243,125)
Vocational education instruction	338,993	338,993	360,938	21,945
Special education instruction	3,483,152	3,508,042	3,378,651	(129,391)
Instructional support services	989,991	956,332	693,147	(263,185)
Pupil support services	1,935,328	1,860,801	1,754,765	(106,036)
Sites and buildings	2,351,342	4,385,746	4,452,348	66,602
Fiscal and other fixed cost programs	195,964	195,964	198,428	2,464
Debt service	326,892	326,892	324,877	(2,015)
<b>Total expenditures</b>	<b>20,020,064</b>	<b>22,231,342</b>	<b>21,556,871</b>	<b>(674,471)</b>
Excess of revenues over (under) budget	(627,374)	(2,462,693)	(1,773,657)	689,036
<b>Other Financing Sources (Uses)</b>	<b>-</b>	<b>165,798</b>	<b>181,638</b>	<b>15,840</b>
<b>Net change in fund balances</b>	<b>\$ (627,374)</b>	<b>\$ (2,296,895)</b>	<b>\$ (1,592,019)</b>	<b>\$ 704,876</b>

Revenues were over budget by \$14,565. The largest variance was in other local and county revenues , which was over budget due to higher interest revenues than expected. Revenues from state sources was under budget due to lower ADM than budgeted.

Expenditures were under budget by \$674,471. The largest variance was in instructional support services, which was \$263,185 under budget due to the district wide staff development budget not being spent, as well as salary and benefit expenditures being lower than projected. Elementary and secondary regular instruction was \$243,125 under budget mainly due to elementary salaries being budgeted too high. Special education instruction expenses were \$129,391 under budget due to MA billing expenses being budgeted higher than actual.

**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,	2019	2020	2021	2022	2023
Revenues	\$ 17,338,226	\$ 18,201,572	\$ 18,630,139	\$ 19,061,229	\$ 19,783,214
Expenditures	16,656,496	17,712,482	18,755,373	20,188,015	21,556,871
Excess of revenues over (under) expenditures	681,730	489,090	(125,234)	(1,126,786)	(1,773,657)
Plus other sources	15,968	187,137	1,417,919	1,067,531	181,638
Fund balance, July 1, restated	2,621,242	3,533,074	4,209,301	5,501,986	5,442,731
<b>Fund Balance, June 30</b>	<b>\$ 3,318,940</b>	<b>\$ 4,209,301</b>	<b>\$ 5,501,986</b>	<b>\$ 5,442,731</b>	<b>\$ 3,850,712</b>

Components of Fund Balance	2019	2020	2021	2022	2023
Nonspendable	\$ 94,213	\$ 105,728	\$ 107,624	\$ 126,230	\$ 127,878
Restricted/reserved for					
Staff development	1,220	229	-	-	-
Alternative program	2,737	7,723	-	-	-
Student activities		160,539	149,752	152,603	135,552
Operating capital	2,586	2,400	359,946	199,021	184,273
Long term facilities maintenance	451,937	296,868	623,951	473,746	685,773
Medical assistance	191,556	207,198	333,052	438,324	456,909
Basic skills	-	4,031	-	-	-
Safe school crime	-	20,812	-	-	-
Assigned	75,101	300,000	300,000	441,858	387,584
Unassigned	2,499,590	3,103,773	3,627,661	3,610,949	1,872,743
<b>Fund Balance, June 30</b>	<b>\$ 3,318,940</b>	<b>\$ 4,209,301</b>	<b>\$ 5,501,986</b>	<b>\$ 5,442,731</b>	<b>\$ 3,850,712</b>

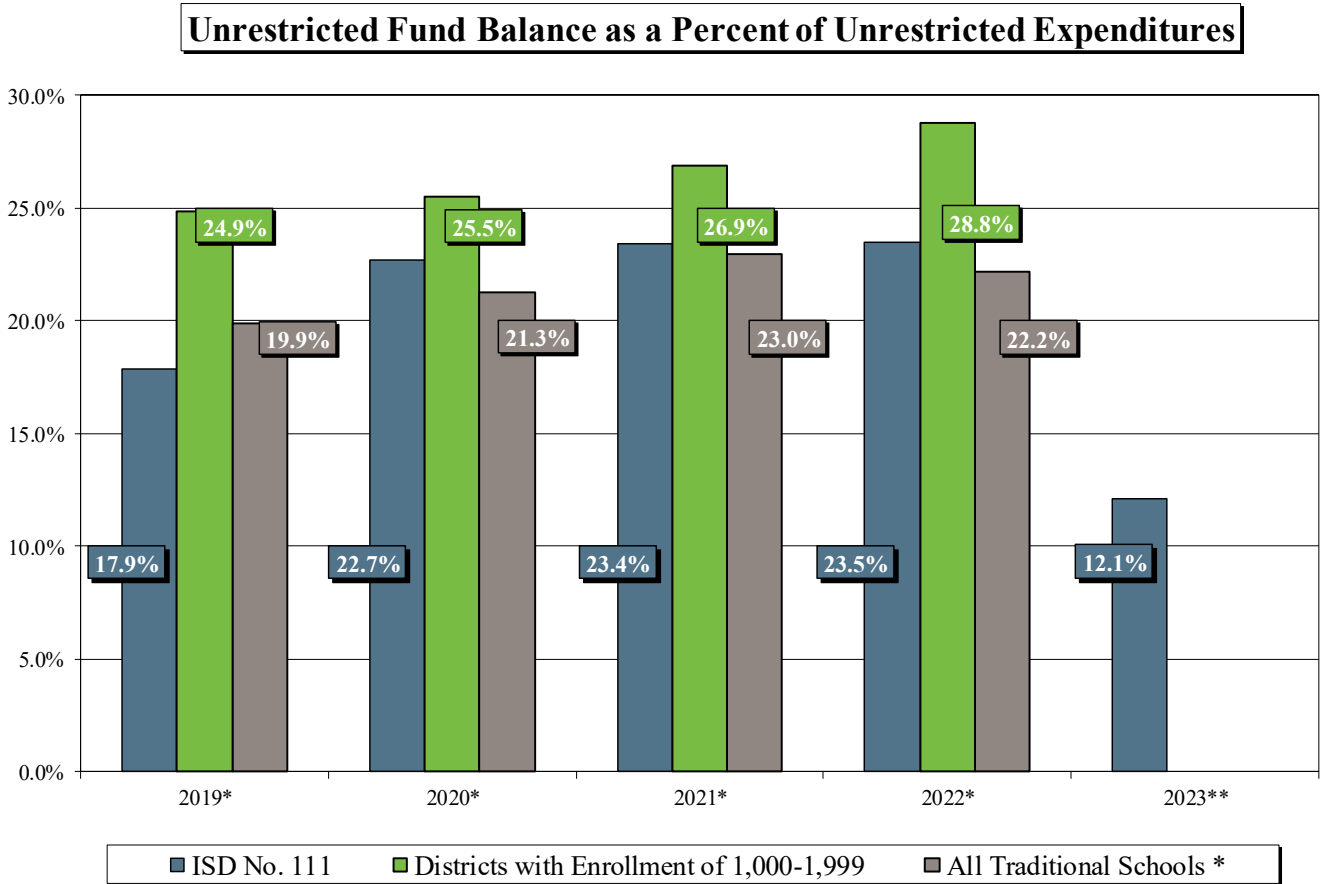
In 2023, the District's revenues increased \$721,985 and expenditures increased \$1,368,856 as discussed earlier. The General Fund balance decreased \$1,592,019 as a result of current year activity.

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 \$1,872,743 at June 30, 2023, represents 8.7% 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*; 2023 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 average for similar size districts for all years presented. Since 2020, the District's unrestricted fund balance as a percentage of expenditures has remained slightly over the state-wide average. The percentage decreased in 2023 due to project costs.

**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,	2019	2020	2021	2022	2023
Revenues	\$ 704,335	\$ 639,835	\$ 535,378	\$ 1,066,843	\$ 881,431
Expenditures	663,122	689,390	534,115	798,580	880,209
Excess of revenues over (under) expenditures	41,213	(49,555)	1,263	268,263	1,222
Fund balance, July 1	59,259	100,472	50,917	52,180	320,443
<b>Fund Balance, June 30</b>	<b>\$ 100,472</b>	<b>\$ 50,917</b>	<b>\$ 52,180</b>	<b>\$ 320,443</b>	<b>\$ 321,665</b>

In 2023, revenues exceeded expenditures, resulting in an increase in fund balance of \$1,222. Revenues decreased by \$185,412 due to higher federal reimbursements in 2022 because there was no free lunch in 2023. Expenditures increased by \$81,629 due to increased participation and food costs, as well as the purchase of equipment.

**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,	2019	2020	2021	2022	2023
Revenues and transfers in	\$ 1,621,746	\$ 1,511,131	\$ 1,690,401	\$ 2,042,069	\$ 2,111,227
Expenditures	1,491,314	1,692,473	1,577,501	1,752,732	1,941,079
Excess of revenues over (under) expenditures	130,432	(181,342)	112,900	289,337	170,148
Fund balance, July 1	224,044	354,476	173,134	286,034	575,371
<b>Fund Balance, June 30</b>	<b>\$ 354,476</b>	<b>\$ 173,134</b>	<b>\$ 286,034</b>	<b>\$ 575,371</b>	<b>\$ 745,519</b>

In 2023, revenues increased by \$69,158 primarily due increased programming and fees collected. Expenditures increased by \$188,347 due to increased programming and a new full time facilities employee.

**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).

**American Indian Education Aid**

Beginning in 2024, a school district or charter school enrolling at least 20 American Indian students will receive the greater of the sum of \$40,000 plus \$500 per American Indian student over the 20-count threshold or the amount of American Indian Education aid received in 2015.

**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.

**Area Learning Center (ALC) Transportation Aid**

ALC transportation aid reimburses school districts for costs associated with transportation of students to and from an ALC program. Total statewide revenue is capped at \$1,000,000 annually. School districts can apply for this new funding stream for 2024 and beyond.

**Basic Alternative Teacher Compensation Aid (Q-Comp)**

The total cap for basic alternative teacher compensation aid increased from \$88,118,000 to \$88,461,000 for 2024 and 2025 and \$89,486,000 for 2026 and beyond.

**Basic General Education Aid**

The formula allowance for 2023 is set at \$6,863 and for 2024, the formula allowance is set at \$7,138, which is a 4% increase over 2023. The formula allowance for 2025 is \$7,281, or a 2% increase from 2024.

**Basic Skills Revenue**

The allowable uses for basic skills funding for 2024 and beyond have changed. Guidance on specific changes is included in the 2024 UFARS Manual.

**Building and Cybersecurity**

Local education agencies may apply for grants to improve security and cybersecurity. The grants may be used for security-related facility improvements and cybersecurity insurance premiums. State-wide funding of \$24,332,000 has been appropriated for these grants.

Safe school revenue has also been expanded to include cyber security measures.

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

**Compensatory Education Revenue**

The compensatory allowance for 2024 was updated and corresponds to increases in the basic formula allowance. A hold-harmless provision has been added for 2025 so that compensatory revenue for each site is the greater of its calculated revenue for 2025 or the 2024 actual revenue.

**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.

**Gender-Neutral Single-User Restroom Grants**

Local education agencies may apply for grants to remodel, construct, or repurpose space for gender-neutral single-user restrooms. Grants to school districts are capped at \$75,000 per site. State-wide funding of \$1,000,000 has been appropriated for these grants.

**Lease Levy Authority**

*Minnesota Statutes 2023* § 126C.40, subdivision 1 grants authority to intermediate, cooperative units, and joint powers districts to levy for the costs of leasing administrative and classroom space. Levy authority is capped at \$65 per adjusted pupil unit of the member district(s). The proportionate share of deferred maintenance expenditures of district-owned buildings or sites leased to an intermediate, cooperative unit, or joint powers district may also be levied.

**Local Optional Revenue**

The second-tier equalization threshold for 2024 remains at \$510,000 before increasing to \$587,244 for 2025, \$642,038 for 2026, and \$671,345 for 2027 and later.

**Long-term Facilities Maintenance (LTFM) Revenue**

Joint powers districts may be included in the LTFM program along with intermediate and secondary cooperative districts.

Additionally, LTFM plans must include provisions for gender-neutral bathrooms, which has been added to the allowable list of LTFM expenses. No new LTFM funding is available for these expenses.

**Online Learning Students**

The Online Instruction Act repeals and replaces the Online Learning Act. Local education agencies can provide online instruction to enrolled students with a limit of 40 students per course. Entities must apply to MDE to provide online instruction to non-enrolled students.

**Operating Referendum**

*Minnesota Statutes 2023* § 126C.17, subdivision 9 has been added, which allows School Boards to renew an existing operating referendum authority one-time through board resolution using the same per-pupil amounts and length of time. Board approval must happen by June 15 in the fiscal year prior to the last fiscal year generating revenue.



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

**Pension Bill and Pension Adjustment Revenue**

TRA required contributions have increased to 7.75% for employees effective for fiscal year 2024. Required employer contributions increase 0.2% in fiscal year 2024 until a required contribution rate of 8.75% is reached.

The pension adjustment rate for districts (besides ISD No. 625, St. Paul) is 1.25% for fiscal years 2024 and 2025 and 2.0% for fiscal year 2026 and 2027. For fiscal year 2028 and later, pension adjustment revenue must not exceed the fiscal year 2027 amount, and the revenue will be prorated, as necessary.

**School Breakfast Program**

Early childhood special education students are now eligible to participate in the School Breakfast program.

**School Library Aid**

New program revenue has been added to be used for school district libraries including media specialist salary and benefits, equipment, furniture, supplies, IT infrastructure, and electric and material resources.

For school districts, 2024 aid amounts to \$16.11 multiplied by the adjusted pupil units or \$40,000, whichever is greater.

For charter schools, 2024 aid amounts to \$16.11 multiplied by the adjusted pupil units or \$20,000, whichever is greater.

**Special Education Aids**

The Special Education Cross Subsidy Reduction Aid paid to districts increases from 6.43% to 44% beginning in 2024. A further increase to 50% begins in 2027.

An additional \$1,689 per ADM will be provided beginning in 2024 based on students served at special education sites where the federal instruction setting is greater than 3 for special education cooperatives, education districts, and intermediates.

**Student Support Personnel Revenue**

A new aid has been added to be used to hire new positions for student support services or to increase the full time equivalent of a current position, to maintain a position that would otherwise be eliminated, or to make a temporary position permanent.

"Student Support Services Personnel" means an individual licensed to serve as a school counselor, school psychologist, school social worker, school nurse, or chemical dependency counselor in Minnesota.

Student support services personnel aid is calculated based on the fiscal year per pupil allocation multiplied by the district's total adjusted pupil units, or \$40,000, whichever is greater. The aid cannot exceed expenditures.

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

**Transportation Sparsity Revenue**

Under *Minnesota Statutes* § 126C.10, subdivision 18a, qualifying districts with eligible expenses greater than revenue will receive an increase in additional revenue from 18.2% to 35% of calculated unfunded pupil transportation expenses beginning in 2024.

**Unemployment Insurance Aid**

Effective May 28, 2023, certain non-certified hourly school workers may qualify for "between term" summer unemployment benefits. A new aid has been created to reimburse districts for between term unemployment insurance costs, which are not eligible for levy reimbursement. The total aid available is \$135 million in fiscal year 2024 and is available until fiscal year 2027 or depletion.

**Voluntary Prekindergarten (VPK)/School Readiness Plus**

VPK seats are included in the calculation of general education revenue. Seats are funded at 0.6 ADM. The number of seats funded are set at 7,160 for 2024, 10,160 for 2025 with a state-wide cap of \$50 million, and 12,360 for 2026 and later.

**Independent School District No. 111  
Watertown-Mayer Schools  
Emerging Issues**

**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 updates include:

- **Implementation Guide No. 2021-1 – Amending Capitalization Requirements**  
GASB has issued Implementation Guide No. 2021-1, amending previously issued guidance regarding capitalization requirements for capital assets that are significant in the aggregate but below the government's capitalization threshold individually.
- **Accounting Standard Update – GASB Statement No. 100 – Accounting Changes and Error Corrections**  
GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.
- **Accounting Standard Update – GASB Statement No. 101 – Compensated Absences**  
GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

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

**Implementation Guide No. 2021-1 – Amending Capitalization Requirements**

Implementation Guide No. 2021-1, amended previously issued guidance contained in Implementation Guide No. 2015-1 regarding capitalization requirements for capital assets that are significant in the aggregate.

Original guidance stated that it *may be* appropriate for a government to establish a capitalization policy that would require capitalization for certain types of assets with individual acquisition costs that are less than the threshold for an individual asset.

Amended guidance states that a government *should* capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers and classroom furniture are common examples of asset types that could be significant collectively. The amended guidance clarifies that if 100 computers costing \$1,500 each totaling a \$150,000 aggregate amount is significant, the government *should* capitalize the computers. Information provided above was obtained from [www.gasb.org](http://www.gasb.org).

**Independent School District No. 111  
Watertown-Mayer Schools  
Emerging Issues**

**Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62***

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting – understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 100 is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged.

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

**Independent School District No. 111  
Watertown-Mayer Schools  
Emerging Issues**

**Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences***

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences – including parental leave, military leave, and jury duty leave – not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 101 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

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