

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

**Communications Letter**

**June 30, 2017**



**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, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiencies identified are stated within this letter.



The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 30, 2017, on such statements.

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

*BergankDV, Ltd.*

St. Cloud, Minnesota  
October 30, 2017

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

**LACK OF SEGREGATION OF ACCOUNTING DUTIES**

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

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

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

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

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2017. Professional standards require that we provide you with the following information related to our audit.

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

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

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

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

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 taken as a whole.

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

**PLANNED SCOPE AND TIMING OF THE AUDIT**

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

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

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

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

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

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 in determining that they are reasonable in relation to the financial statements taken as a whole.

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

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

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

- State revenue and receivable

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

**MANAGEMENT REPRESENTATIONS**

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



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

**MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS**

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

**OTHER AUDIT FINDINGS OR ISSUES**

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

**OTHER MATTERS**

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

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

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

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

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

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

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

Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
2008	\$ 5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%

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

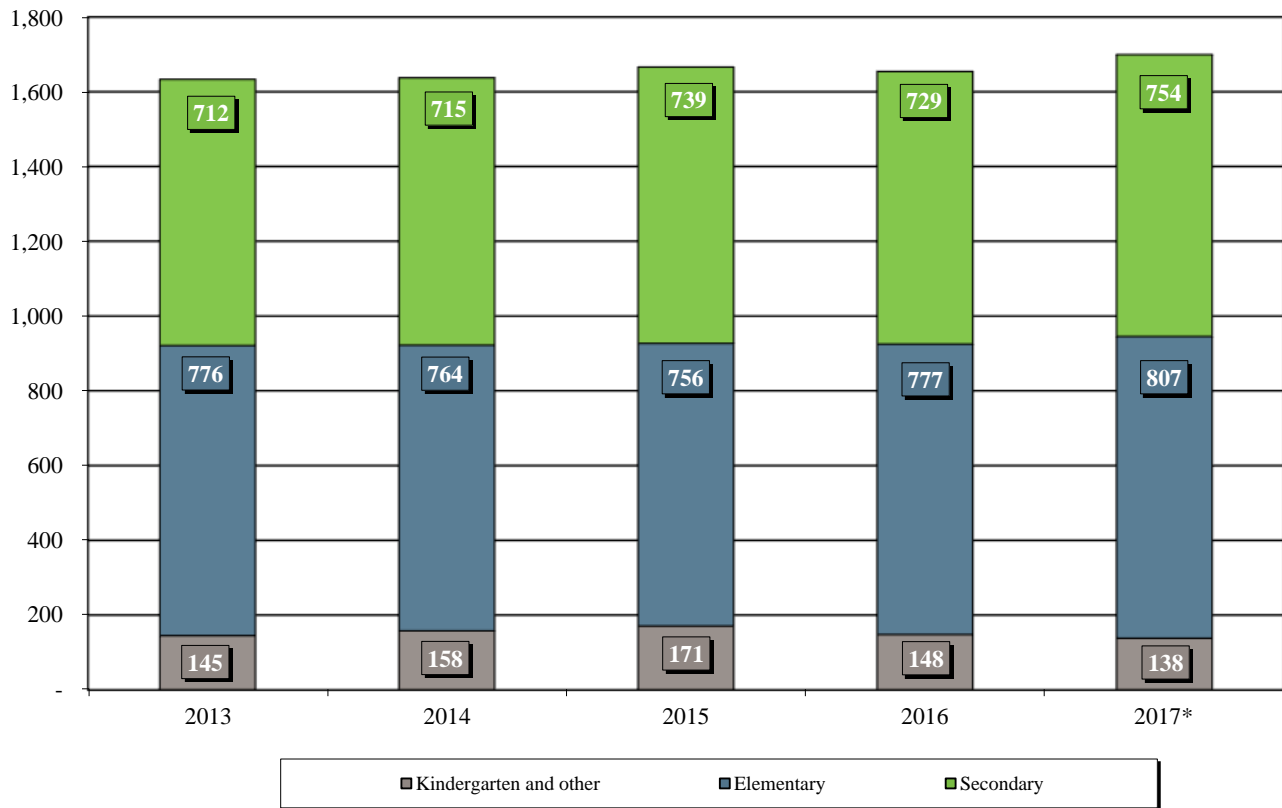
**Independent School District No. 111  
Watertown-Mayer Schools  
Financial Analysis**

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

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

<b>Resident ADM</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Kindergarten and other	145	158	171	148	138
Elementary	776	764	756	777	807
Secondary	712	715	739	729	754
<b>Total</b>	<b>1,633</b>	<b>1,637</b>	<b>1,666</b>	<b>1,654</b>	<b>1,699</b>

**Student (Average Daily Membership)**



\* Estimate

Resident ADM has increased 4.0%, or 66 students, over the last five years. Also, Resident ADM increased 2.7%, or 45 students, from 2016 and 2017.

**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
2013-2014	1.250	1.000	0.612	1.115	1.060	1.300
2015-2017	1.000	1.000	1.000	1.000	1.000	1.200

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

<b>WADM/PUN Served</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Residents	1,880	1,880	1,814	1,800	1,850
Resident WADM/PUN going elsewhere	(321)	(346)	(357)	(379)	(416)
Total residents served	1,559	1,534	1,457	1,421	1,434
Total nonresidents	280	267	264	287	308
<b>Total WADM/PUN served</b>	<b>1,839</b>	<b>1,801</b>	<b>1,721</b>	<b>1,708</b>	<b>1,742</b>

For 2015, the Minnesota Department of Education (MDE) simplified the weighting factors for converting ADM to weighed amounts on which the basic formula portion of general education aid is based. The weighed amounts are now titled pupil unit numbers (PUN) and were previously referred to as weighted average daily membership (WADM). As mentioned on page 8, because of the simplified weighting changes, districts' weighted pupil counts across the state decreased, so MDE increased the basic formula allowance dollar amount in an effort to hold districts harmless. We see a decrease in the 2015 PUN to 1,721 in the chart above as a result of this change. If weighting factors had not changed, the District would have shown an increase to 1,816 PUN. For 2017, PUN increased 34 to 1,742.

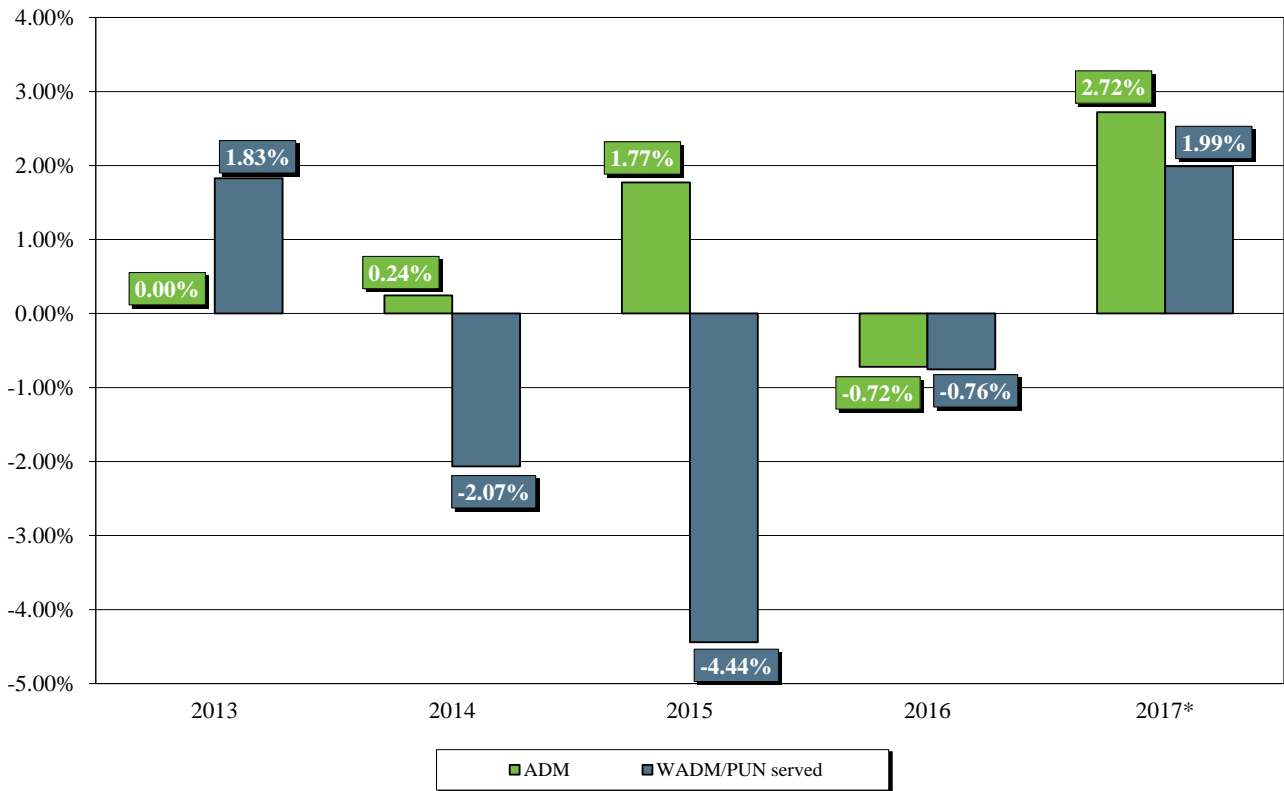
**Independent School District No. 111  
Watertown-Mayer Schools  
Financial Analysis**

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

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

Change in Average Daily Membership and WADMs Served					
	2013	2014	2015	2016	2017*
ADM	0.00%	0.24%	1.77%	-0.72%	2.72%
WADM/PUN served	1.83%	-2.07%	-4.44%	-0.76%	1.99%

**Change in ADM and WADM/PUN Served**



\* Estimate

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

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

**REVENUES AND EXPENDITURES PER ADM SERVED**

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

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

<b>ISD No. 111</b>						
<b>General Fund</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>	
Property taxes	\$ 880	\$ 483	\$ 762	\$ 845	\$ 949	
State aid	7,467	8,245	8,335	8,454	8,409	
Other	854	930	778	723	763	
<b>Total General Fund Revenue</b>	<b>\$ 9,201</b>	<b>\$ 9,658</b>	<b>\$ 9,875</b>	<b>\$ 10,022</b>	<b>\$ 10,121</b>	
<b>Districts with 1,000-1,999 ADM**</b>						
Property taxes	\$ 912	\$ 530	\$ 865	\$ 934	N/A	
State aid	8,002	8,648	8,823	9,108	N/A	
Other local sources	1,064	1,081	1,182	1,166	N/A	
<b>Total General Fund Revenue</b>	<b>\$ 9,978</b>	<b>\$ 10,259</b>	<b>\$ 10,869</b>	<b>\$ 11,208</b>	<b>N/A</b>	
<b>State-Wide**</b>						
Property taxes	\$ 1,608	\$ 923	\$ 1,564	\$ 1,673	N/A	
State aid	8,234	9,136	9,114	9,435	N/A	
Other local sources	856	941	936	940	N/A	
<b>Total General Fund Revenue</b>	<b>\$ 10,698</b>	<b>\$ 11,000</b>	<b>\$ 11,614</b>	<b>\$ 12,048</b>	<b>N/A</b>	

Revenues per student for the General Fund increased 1.0% from 2016 to 2017 as students served increased 1.5% and revenues increased 2.5%

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

<b>ISD No. 111</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>	
General fund	\$ 9,816	\$ 9,749	\$ 9,919	\$ 9,912	\$ 9,824	
General and special revenue	11,007	11,017	11,161	11,159	11,141	
<b>Districts with Enrollment of 1,000-1,999**</b>						
General fund	\$ 9,995	\$ 10,231	\$ 10,665	\$ 10,908	N/A	
General and special revenue	10,871	11,144	11,613	11,889	N/A	
<b>State Averages**</b>						
General fund	\$ 10,666	\$ 11,011	\$ 11,527	\$ 11,895	N/A	
General and special revenue	11,678	12,055	12,573	13,014	N/A	

\* Estimate

\*\* State average expenditures per ADM served for the 1,000 to 1,999 group for 2013-2016 as listed in the MDE publication *School District Profiles*. The 2017 information is not yet available.

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

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

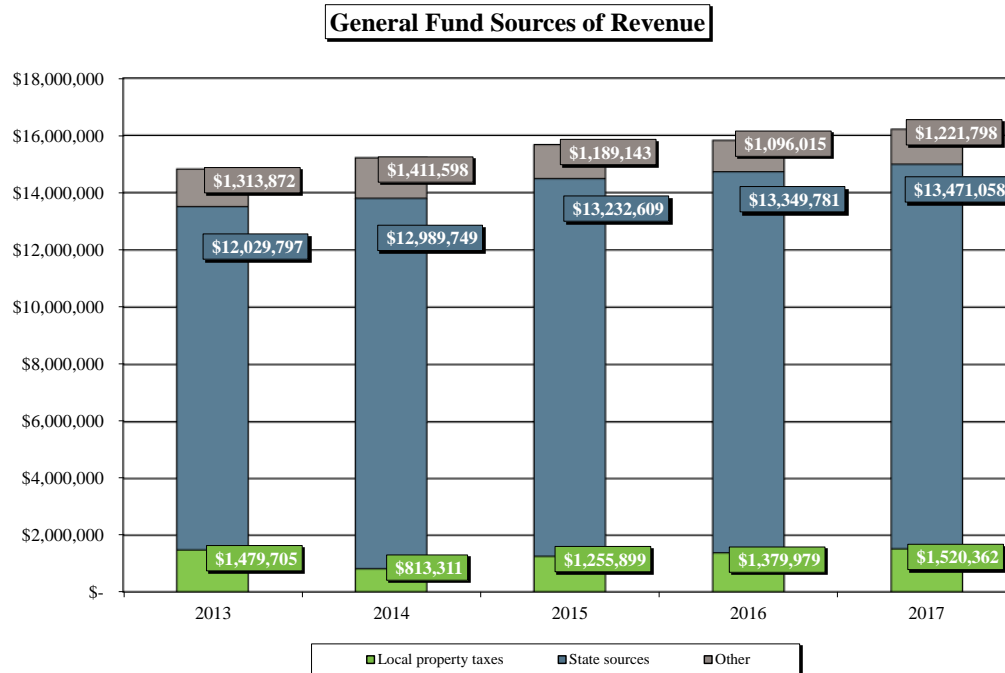
Expenditures per student served for the General Fund decreased 0.9% from 2016 to 2017 as students served increased 1.5% and expenditures increased 0.5%.

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:

	2013	2014	2015	2016	2017
Local property taxes	\$ 1,479,705	\$ 813,311	\$ 1,255,899	\$ 1,379,979	\$ 1,520,362
State sources	12,029,797	12,989,749	13,232,609	13,349,781	13,471,058
Other	1,313,872	1,411,598	1,189,143	1,096,015	1,221,798
<b>Total</b>	<b>\$ 14,823,374</b>	<b>\$ 15,214,658</b>	<b>\$ 15,677,651</b>	<b>\$ 15,825,775</b>	<b>\$ 16,213,218</b>



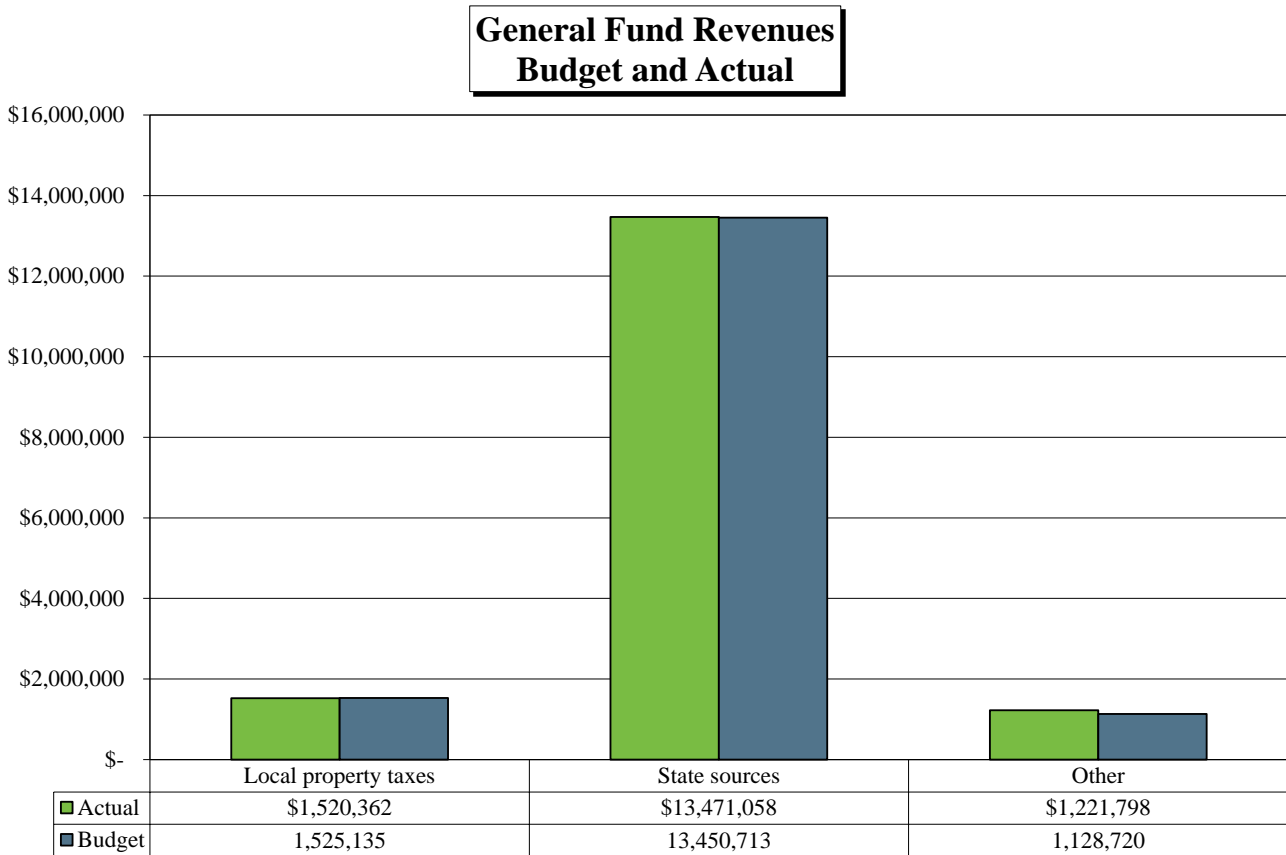
Total revenue increased \$387,443, or 2.5%, from 2016 to 2017. The most significant portion of the District's funding came from the state in the form of general education revenue. As previously explained, this funding is determined based on student enrollment. Revenue from state sources increased \$121,277 due in part to an increase in the formula allowance and an increase in students served. Revenue from local property taxes increased \$140,383 due in part to an increase in the General Fund levy related to the new long-term facilities maintenance program. Other Local and County Revenues increased \$125,783 due to increased billing related medical assistance.

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

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

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

The District set a final revenue budget of \$16,104,568. Actual revenues of \$16,213,218 were over the final budget by \$108,650, or 0.7%.

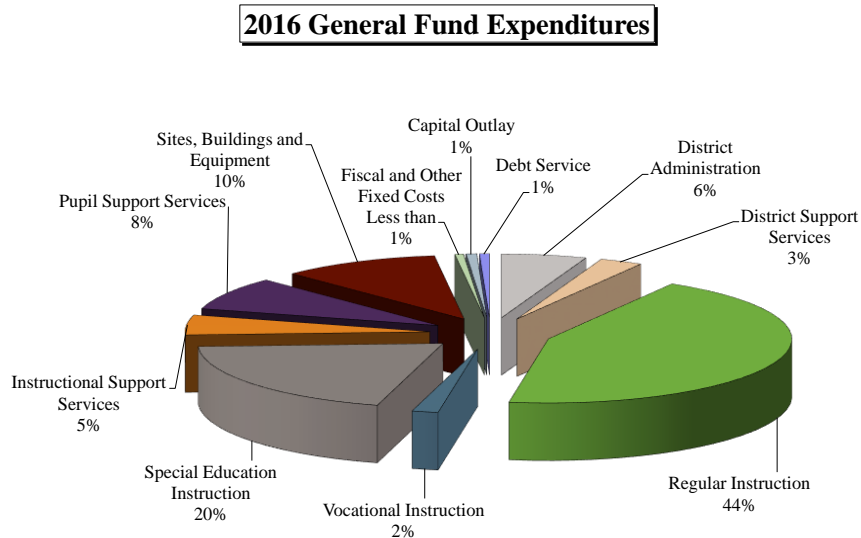
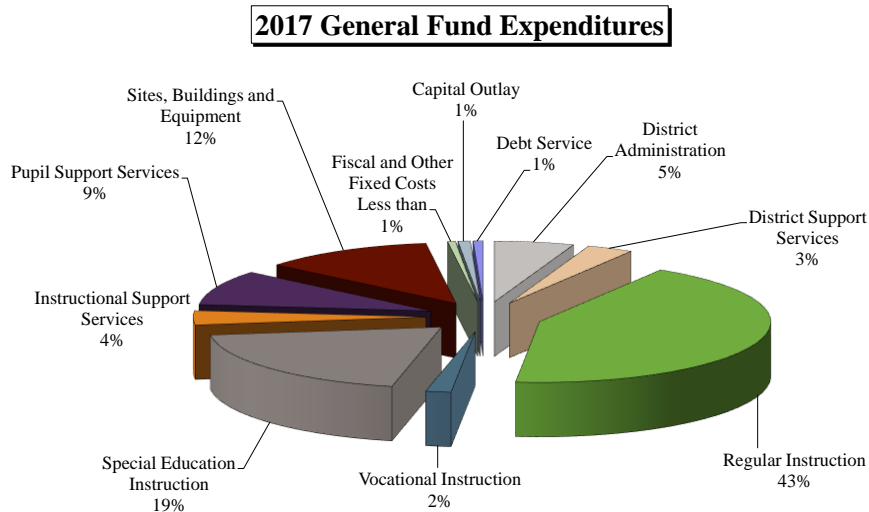


Other sources had the largest variance from budgeted amounts, coming in \$93,078 over budget. This is primarily due to conservative budgeting related increased medical assistance billing.



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

### GENERAL FUND EXPENDITURES



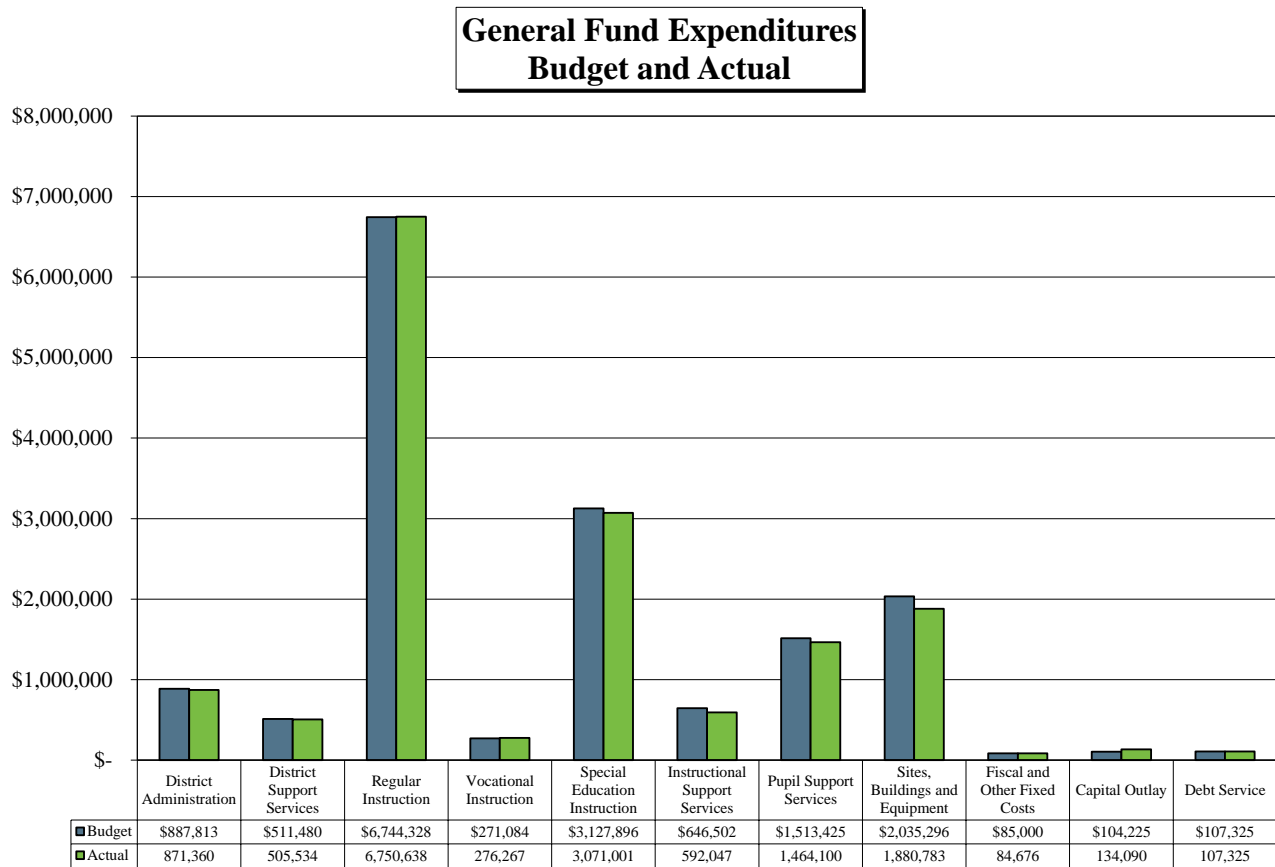
Expenditures in the General Fund for 2017 increased \$85,182, or 0.5%, from 2016. The most significant decreases were \$192,314 in instructional support services and \$155,081 in regular instruction. Instructional support services decreased due to a decrease in salaries and corresponding benefits as a result of shifting employment responsibilities to Dean positions and to the Superintendent. Regular instruction decreased due to reduction of an elementary teacher. The most significant increases were \$243,583 in sites and buildings and \$153,278 in pupil support services. Sites and buildings increased due to the new long-term facilities maintenance funding. Pupil support services increased due to an increase in the Carver County non-special education contract and an increase in busing fees. All other programs remained consistent with the prior year.

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

**GENERAL FUND BUDGETED AND ACTUAL EXPENDITURES**

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

General Fund actual spending of \$15,737,821 was under the final budget of \$16,034,374 by \$296,553, or 1.9%



Actual expenditures were under budget in the General Fund by \$296,553. The largest under budget variance was in sites and buildings expenditures, which was under the budgeted amount by \$154,513. This variance is due to budgeting conservatively for purchased services related to the new long-term facilities maintenance funding in 2017. All other programs remained fairly consistent with the prior year.

**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:

	2013	2014	2015	2016	2017
Revenues	\$ 14,823,374	\$ 15,214,658	\$ 15,677,651	\$ 15,825,775	\$ 16,213,218
Expenditures	15,905,025	15,359,306	15,746,828	15,652,639	15,737,821
Excess of revenues over (under) expenditures	(1,081,651)	(144,648)	(69,177)	173,136	475,397
Plus (minus) other sources (uses)	90,883	(919,788)	350	135	-
Fund balance, July 1	3,344,779	2,354,011	1,289,575	1,220,748	1,394,019
<b>Fund Balance, June 30</b>	<b>\$ 2,354,011</b>	<b>\$ 1,289,575</b>	<b>\$ 1,220,748</b>	<b>\$ 1,394,019</b>	<b>\$ 1,869,416</b>

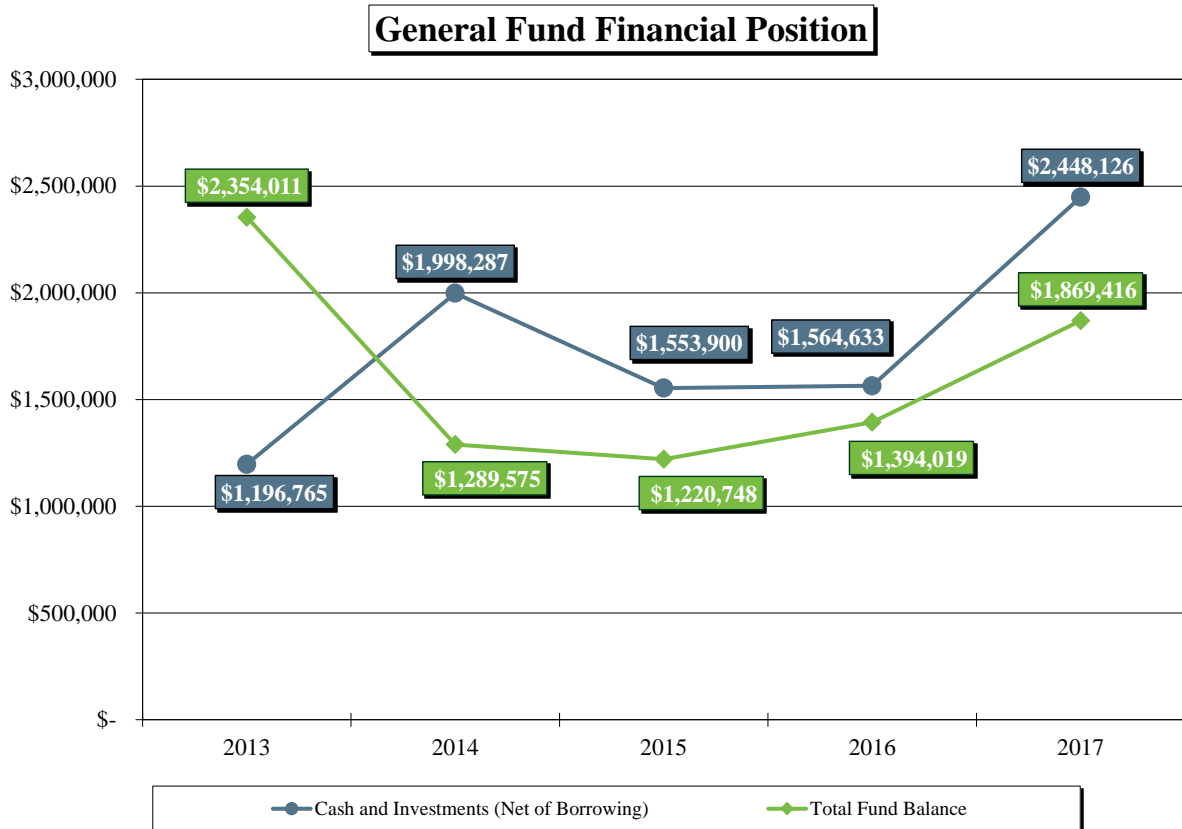
Components of Fund Balance	2013	2014	2015	2016	2017
Nonspendable	\$ 102,150	\$ 92,578	\$ 87,038	\$ 87,855	\$ 84,496
Restricted/reserved for*					
Staff development	13,135	2,618	1,735	1,735	1,220
Deferred maintenance	2	2	2	2	-
Health and safety	(142,257)	(115,494)	-	-	-
Learning and development	1,104	1,104	-	-	-
Operating capital	372,684	90,490	11,598	5,317	-
Long term facilities maintenance	-	-	-	-	21,831
Medical Assistance	-	-	-	-	128,433
Safe schools crime levy	-	3,126	-	-	-
Bond proceeds	33,950	-	-	-	-
Assigned	177,952	111,491	45,295	11,503	2,251
Unassigned	1,795,291	1,103,660	1,075,080	1,287,607	1,631,185
<b>Fund Balance, June 30</b>	<b>\$ 2,354,011</b>	<b>\$ 1,289,575</b>	<b>\$ 1,220,748</b>	<b>\$ 1,394,019</b>	<b>\$ 1,869,416</b>

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

In 2017, the District's revenues increased \$387,443 and expenditures increased \$85,182 as discussed earlier. The General Fund balance increased \$475,397 as a result of current year activity.

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

**GENERAL FUND OPERATIONS (CONTINUED)**

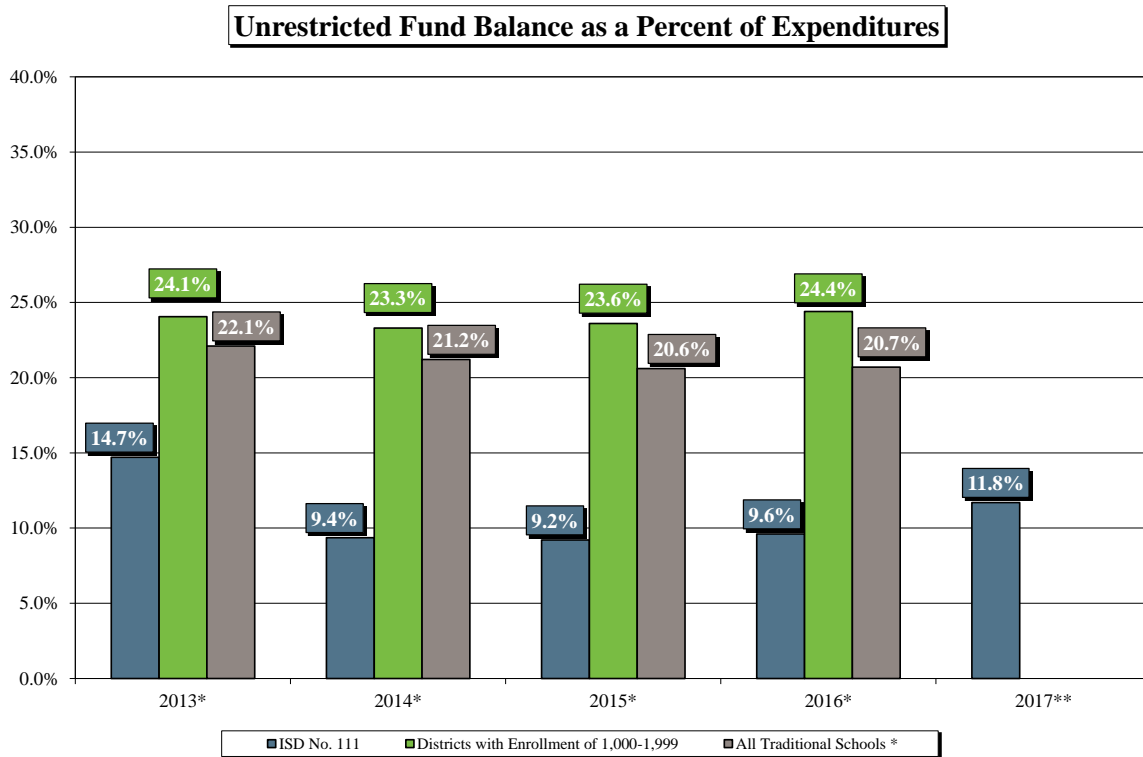


The District has managed its spending through the budget to maintain its fund balance to be in compliance with its policy. However, the District has little control over the cash balance. As state aids are the largest portion of the District's sources, the payment of these funds represents a significant cash flow. During 2013, state aids were paid out with an approximate 13.6% holdback. With State metering of aid payments back to 90% in 2014 through 2017, there is a more direct correlation between cash balance and fund balance.

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

**DISTRICT FINANCIAL HEALTH**

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



\* Source: *School District Profiles*; 2017 data not yet available.

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

The District's goal is to maintain a minimum unassigned General Fund balance of not less than 7% and not more than 20% of the annual budget for each year. The unassigned fund balance of \$1,631,185 at June 30, 2017 represents 10.2% of current year budget.

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

**FOOD SERVICE FUND**

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

For the Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 758,195	\$ 781,290	\$ 784,901	\$ 788,812	\$ 785,321
Expenditures	758,195	779,964	762,915	769,827	777,229
Excess of revenues over (under) expenditures	-	1,326	21,986	18,985	8,092
Fund balance, July 1	11,327	11,327	12,653	34,639	53,624
<b>Fund Balance, June 30</b>	<b>\$ 11,327</b>	<b>\$ 12,653</b>	<b>\$ 34,639</b>	<b>\$ 53,624</b>	<b>\$ 61,716</b>

In 2017, revenues exceeded expenditures, resulting in an increase in fund balance of \$8,092. Revenues and expenditures remained consistent with the prior year.

**COMMUNITY SERVICE FUND**

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

For the Year Ended June 30,	2013	2014	2015	2016	2017
Revenues and transfers in	\$ 1,155,655	\$ 1,182,253	\$ 1,241,220	\$ 1,268,511	\$ 1,379,619
Expenditures	1,159,749	1,218,344	1,208,190	1,198,741	1,331,973
Excess of revenues over (under) expenditures	(4,094)	(36,091)	33,030	69,770	47,646
Fund balance, July 1	67,344	63,250	27,159	60,189	129,959
<b>Fund Balance, June 30</b>	<b>\$ 63,250</b>	<b>\$ 27,159</b>	<b>\$ 60,189</b>	<b>\$ 129,959</b>	<b>\$ 177,605</b>

In 2017, revenues increased by \$111,108 primarily because of an increase in programming, as well as an addition of another site in Mayer. Expenditures increased by \$133,232 due to additional staffing needs related to the increased programming and the addition of another site in Mayer. At June 30, 2017, all components of fund balance within the Community Service Fund were positive.

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

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

**STATE AID APPROPRIATIONS**

The formula allowance for 2017 General Education Aid was increased \$119 (2%) to \$6,067. For 2018, the formula allowance is set at \$6,188, which is also an increase of 2%.

**COMPENSATORY REVENUE**

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue must be used for extended time activities. These percentages are 1.7% for 2018, 3.5% for 2019, and for 2020 and later it will be 3.5% plus the percentage change in the formula from 2019.

**STUDENT ACHIEVEMENT LEVY**

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

**LEAD IN SCHOOL DRINKING WATER**

By July 1, 2018, districts will be required to begin testing school water for lead. Testing must be completed for all schools within five years. School districts and charter schools must adopt a plan to test school water for lead at least every five years. Lead test results must be made available to the public and parents must be notified when this information is available.

The testing may be included in the ten year facilities plans and districts can use long-term facilities maintenance revenue for lead testing and remediation costs.

**PAYMENTS TO NONOPERATING FUNDS**

The payment schedule for nonoperating fund aids is moving to six monthly installments from July through December rather than 12 monthly installments.

**SCHOOL BUILDING BOND AGRICULTURAL CREDIT**

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. Total amounts available will be \$34.8 million in 2019, \$45.2 million in 2020, and \$52.5 million in 2021.

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

**LONG-TERM FACILITIES MAINTENANCE REVENUE**

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

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

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

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

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

**NUTRITION CONTRACTS**

There is now an exception to the statute limiting school district contracts to two years with an option on the part of the district to renew for an additional two years. The exception states that a contract between a school board and a food service management company that complies with Code of Federal Regulations, title 7, section 210.16, may be renewed annually after its initial term for not more than four years.

**EQUITY REVENUE**

For 2017 through 2019, nonmetro school district are eligible for a 16% increase in the sliding portion of their equity revenue. The seven county metro area schools continue to receive a 25% increase over their initial calculation for revenue.

Beginning in 2020, all districts will receive the same 25% increase over the initial calculation for revenue.

For 2017 all revenue increases will be paid out as additional state aid.

**SPECIAL EDUCATION**

An adjustment to the prior year data and the fiscal year 2016 old formula revenue base used to calculate the hold harmless and group cap will be necessary for closed or restructured programs.

Although there was a change in Federal law removing student awaiting foster care from the definition of "homeless", these students will still be included in the special education funding calculations.



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

**NONPUBLIC PUPIL AID**

The definition of "textbook" has been modified to include the on-line books with annual subscription costs. The definition of "software or other educational technology" has been modified to include registration fees for online advanced placement courses.

**VOLUNTARY PREKINDERGARTEN/SCHOOL READINESS PLUS**

A new school readiness plus program has been created for 2018 and 2019 only. This program changes the voluntary preK cap from a limit on the total state aid entitlement to a limit on the number of participants. For 2018 this cap will be 6,160 for voluntary preK and school readiness plus and will be 7,160 for 2019. The cap of 6,160 for 2018 covers the 3,160 2017 voluntary preK participants that have renewed their applications for 2018 plus 3,000 new participants. After 2019 the school readiness plus will be eliminated and the cap for voluntary preK will be 3,160 participants.

**HOME VISITING REVENUE**

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

**PUPIL TRANSPORTATION FUNDING**

Beginning in 2018, sparsity revenue will increase by 18.2% of the difference between the lesser of the district's actual regular and excess transportation costs, including bus depreciation for the previous year or 105% of the district's cost for the second previous year, and the sum of 4.66% of the district's basic revenue, transportation sparsity revenue and charter school transportation adjustment from the previous year.

**REVIEW AND COMMENT**

The commissioner will now include comments from district residents in the review and comment on capital projects.

School boards must now hold a public meeting to review the commissioner's review and comment on a proposal before the bond election.

**NEW FINANCE CODES**

Starting in 2018, there are multiple new finance codes for tracking revenue. Finance code 175 will be used to track revenue related to Title VII – Impact Aid. This finance code will close to balance sheet code 475, Restricted for Title VII Impact Aid. Finance code 185 will be used to track revenue from private sources. This finance code will close to balance sheet 485, restricted for private sources. Finance code 176 will be used to track revenue from payments in lieu of taxes (PILT). This finance code will close to balance sheet 476, restricted for payments in lieu of taxes.

**SPECIAL ELECTIONS**

District's no longer have the ability to choose any date for special elections. Special elections must now be held on the second Tuesday in February, April, May, August or election day.

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

### **Executive Summary**

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

- **Accounting Standard Update – GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

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

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

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

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

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

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

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

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

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

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

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

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