



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

Communications Letter

June 30, 2025

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

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

In planning and performing our audit of the 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, 2025, 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 certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control 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 weaknesses 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 February 17, 2026, 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.

St. Cloud, Minnesota
February 17, 2026

**Independent School District No. 111
Watertown-Mayer Schools
Material Weaknesses**

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 deferred inflows of resources and property tax revenues was needed.

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.

Material Audit Adjustments

Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements. Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements.

During our audit, material audit adjustments were identified to ensure accurate financial reporting for intergovernmental revenues, related receivable balances, current property taxes receivable and property taxes levied for subsequent years.

**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, 2025. 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 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 *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

We addressed the following significant risks of material misstatement identified in our planning procedures:

- 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 district's 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 the payroll process.
- State Aid Valuation - Revenue and receivable amounts related to General Education Aid and Special Education Aid are generally material to the basic financial statements and involve significant estimates.
- Pension Valuation - Net pension liability, deferred outflow of resources related to pensions, and deferred inflows of resources related to pensions are generally material to the basic financial statements and involve significant estimates.
- Other Post Employment Benefits (OPEB) Valuation - Total/Net OPEB liability, deferred outflows of resources related to OPEB, and deferred inflows of resources related to OPEB are generally material to the basic financial statements and involve significant estimates.
- Compensated Absences - Compensated absences are generally material to the financial statements and involve significant estimates.

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

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 the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures 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 relate to:

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.

Compensated Absences Liability - These balances are related to leave accrued based on complement contracts and estimates based on historical use of leave balances.

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. Management has corrected all such misstatements.

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.

- Due from Department of Education and revenue from state sources.
- Current property taxes receivable and property taxes levied for subsequent years.

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
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%
2026	7,481	2.7%

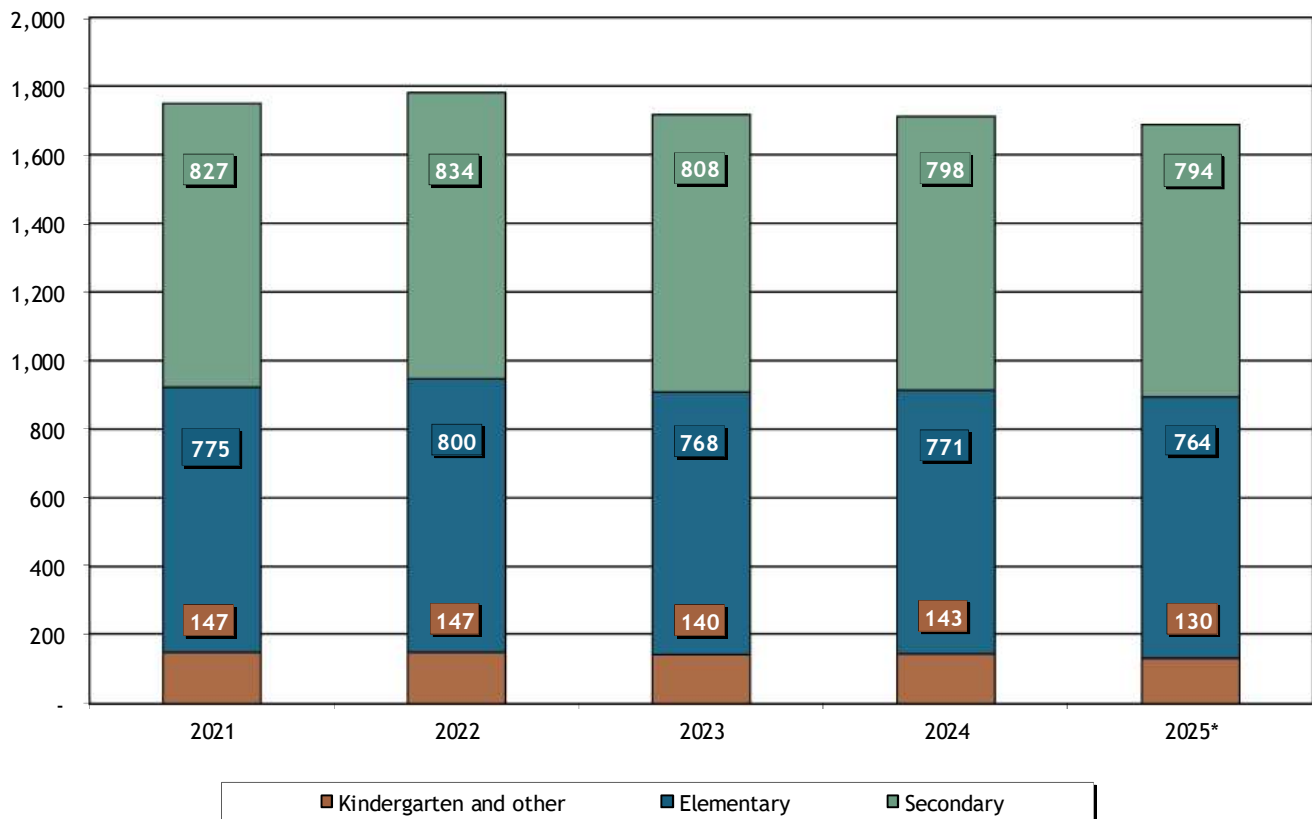
**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

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	2021	2022	2023	2024	2025*
Kindergarten and other	147	147	141	143	130
Elementary	775	800	768	771	764
Secondary	827	834	808	798	794
Total	1,749	1,781	1,717	1,712	1,688

Student (Average Daily Membership)



* Estimate

Resident ADM has decreased 3.5%, or 61 students, over the last five years. Resident ADM decreased 1.4%, or 24 students, from 2024 to 2025.

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

Average Daily Membership and Pupil Units (Continued)

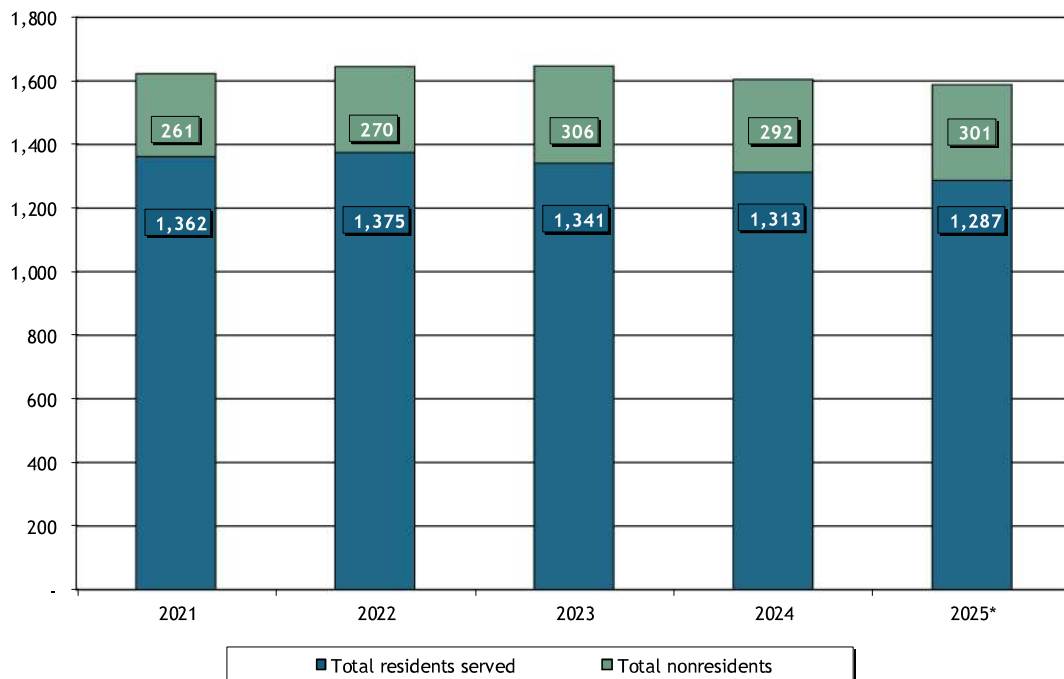
To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting based on the student's grade level. These weighting factors are presented below.

	Pre and Disabled Kindergarten	Kindergarten	Elementary (1-3/4-6)	Secondary
2021-2025	1.000	1.000	1.000	1.200

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

PUN Served	2021	2022	2023	2024	2025*
Residents	1,914	1,948	1,878	1,871	1,846
Resident PUN going elsewhere	(552)	(573)	(537)	(558)	(559)
Total residents served	1,362	1,375	1,341	1,313	1,287
Total nonresidents	261	270	306	292	301
Total adjusted PUN	1,623	1,645	1,647	1,605	1,588

Adjusted PUN



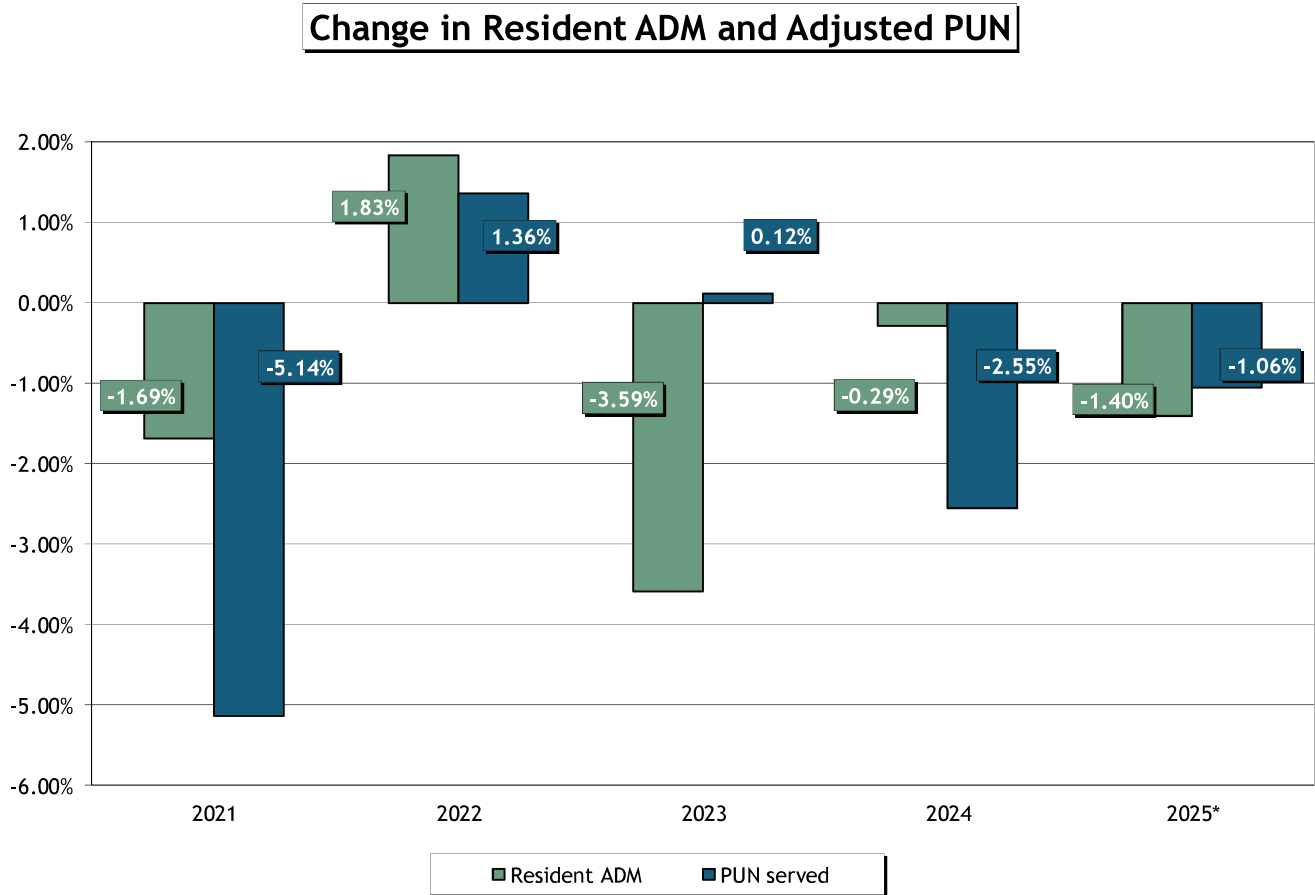
* Estimate

For 2025, PUN decreased 1.1%, or 17 students, compared to 2024. Total PUN has decreased 2.2%, or 35 students, since 2021 due primarily to the decrease in residents served over that time.

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

Average Daily Membership and Pupil Units (Continued)

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



* Estimate

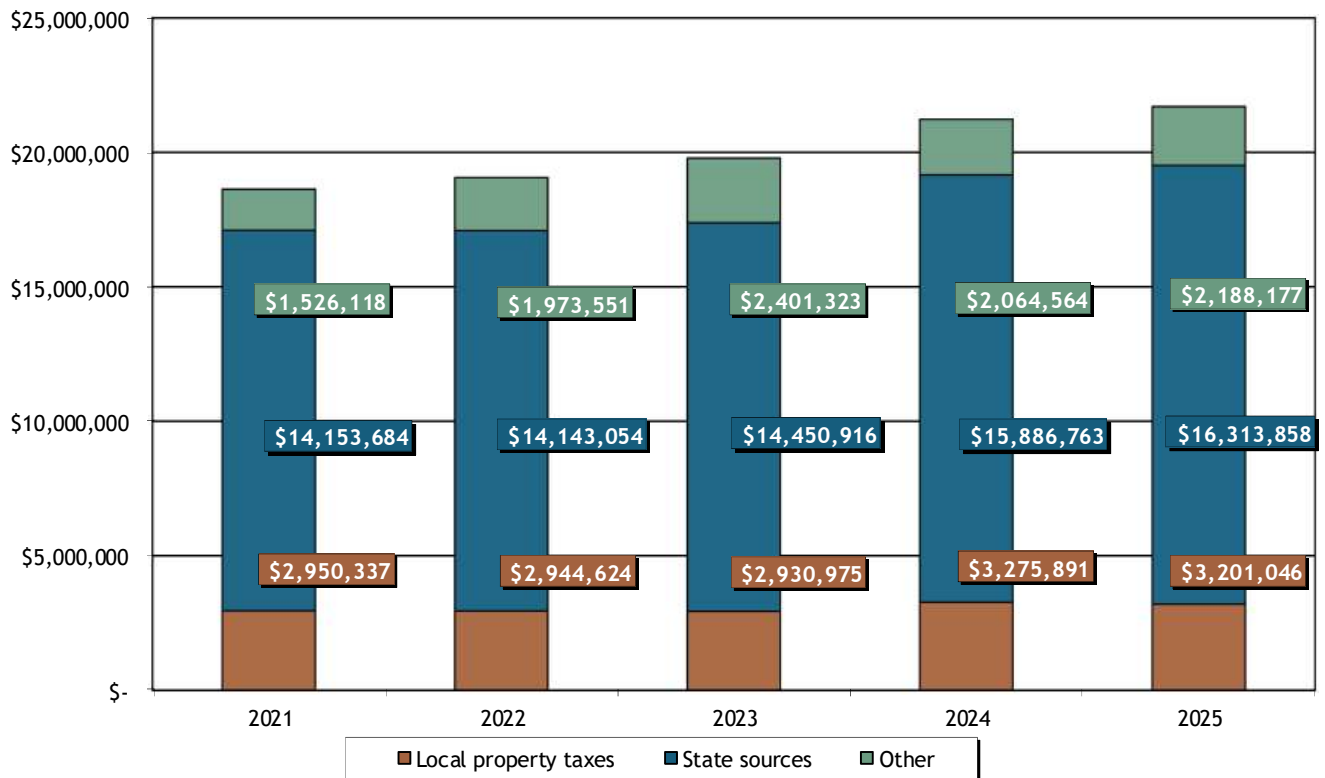
**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2021	2022	2023	2024	2025
Local property taxes	\$ 2,950,337	\$ 2,944,624	\$ 2,930,975	\$ 3,275,891	\$ 3,201,046
State sources	14,153,684	14,143,054	14,450,916	15,886,763	16,313,858
Other	1,526,118	1,973,551	2,401,323	2,064,564	2,188,177
Total	\$ 18,630,139	\$ 19,061,229	\$ 19,783,214	\$ 21,227,218	\$ 21,703,081

General Fund Sources of Revenue

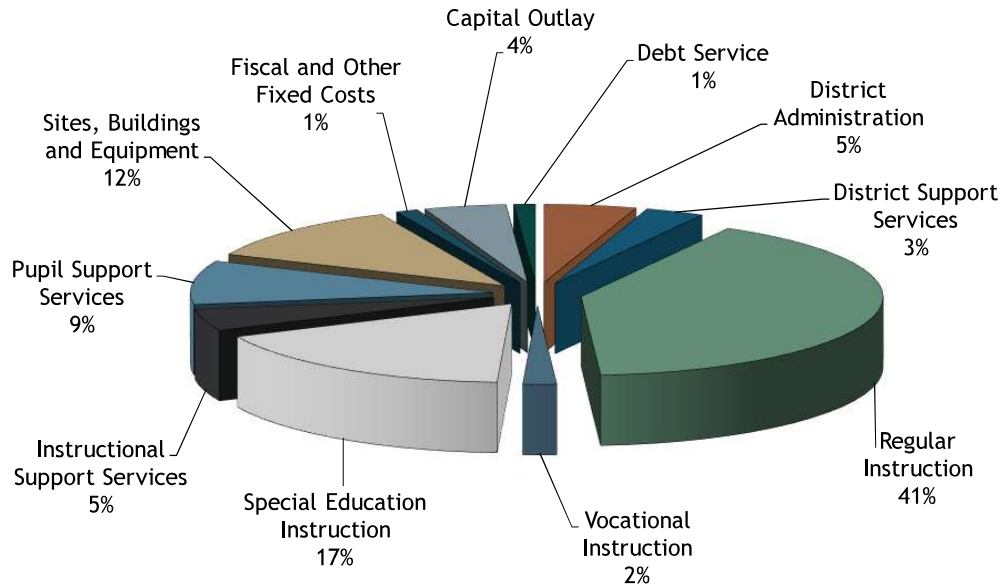


Total revenue increased \$475,863, or 2.2%, from 2024 to 2025. The most significant portion of the District's funding came from the state in the form of general education revenue. As previously explained, this funding is determined based on student enrollment. Revenue from state sources increased \$427,095 due primarily to the increase in special education aid.

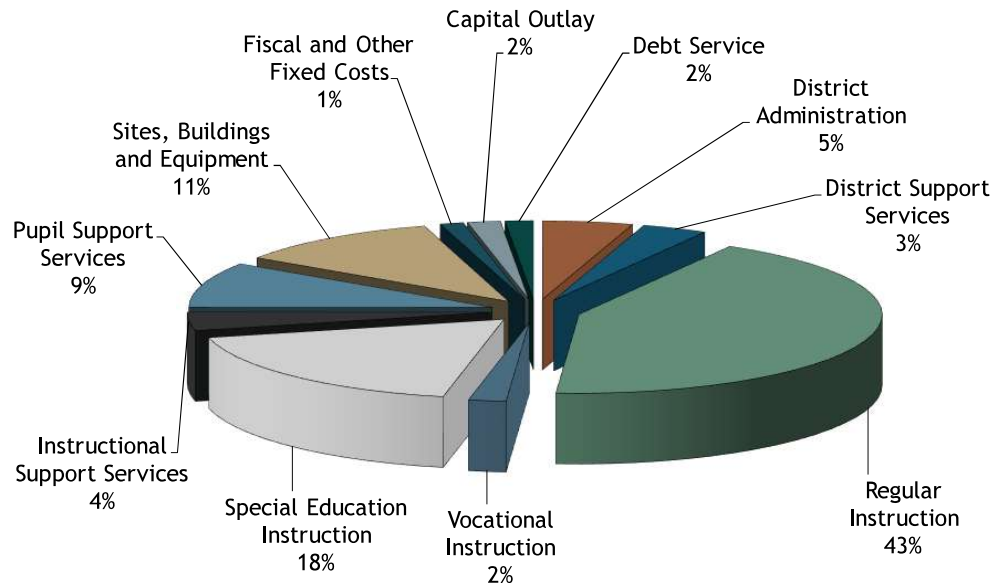
**Independent School District No. 111
Watertown-Mayer Schools
Financial Analysis**

General Fund Expenditures

2025 General Fund Expenditures



2024 General Fund Expenditures



Expenditures in the General Fund for 2025 increased \$1,438,454, or 7.2%, from 2024. The most significant increase was in Capital Outlay, which increased \$589,284 with the addition of new leases. Sites, Buildings, and Equipment increased \$281,969 related to purchases made using long-term facility maintenance funds. Instructional Support Services expenditures increased \$202,228 due in large part to higher curriculum material expenditures in 2025.

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

Revenues and Expenditures Per ADM Served

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

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

General Fund	2021	2022	2023	2024	2025*
Property taxes	\$ 1,959	\$ 1,898	\$ 1,917	\$ 2,155	\$ 2,203
State aid	9,501	9,318	9,519	10,748	11,230
Other	1,813	1,929	1,730	1,470	1,506
Total General Fund Revenue	\$ 13,273	\$ 13,145	\$ 13,166	\$ 14,373	\$ 14,939

Districts with 1,000-1,999 ADM**					
Property taxes	\$ 1,262	\$ 1,402	\$ 1,456	\$ 1,387	N/A
State aid	10,591	12,028	12,369	12,213	N/A
Other	1,599	2,321	2,448	1,958	N/A
Total General Fund Revenue	\$ 13,452	\$ 15,751	\$ 16,273	\$ 15,558	N/A

State-Wide**					
Property taxes	\$ 2,381	\$ 2,443	\$ 2,545	\$ 2,728	N/A
State aid	10,758	10,782	11,073	12,448	N/A
Other	1,473	1,941	2,109	2,011	N/A
Total General Fund Revenue	\$ 14,612	\$ 15,166	\$ 15,727	\$ 17,187	N/A

Revenues per student for the General Fund increased 3.9% from 2024 to 2025 as students served decreased 1.3% and revenues increased 2.2%.

**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	2021	2022	2023	2024	2025*
General Fund	\$ 12,408	\$ 13,199	\$ 14,220	\$ 13,434	\$ 14,449
General and special revenue	13,831	14,887	16,086	15,422	16,934
Districts with Enrollment of 1,000-1,999**					
General Fund	\$ 13,037	\$ 15,784	\$ 16,492	\$ 15,031	N/A
General and special revenue	14,071	16,996	17,771	16,450	N/A
State Averages**					
General Fund	\$ 14,167	\$ 15,010	\$ 15,730	\$ 16,649	N/A
General and special revenue	15,267	16,322	17,147	18,215	N/A

* Estimate

** State average expenditures per ADM served for the 1,000 to 1,999 group for 2021-2024 as listed in the MDE publication *School District Profiles*. The 2025 information is not yet available.

Expenditures per student served for the General Fund increased 7.6% from 2024 to 2025 as students served decreased 1.3% and expenditures increased 5.0%.

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.

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

General Fund Budgeted to Actual

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 3,256,415	\$ 3,271,473	\$ 3,201,046	\$ (70,427)
Other local and county revenues	949,306	1,574,512	1,570,937	(3,575)
Revenue from state sources	15,850,859	16,187,879	16,313,858	125,979
Revenue from federal sources	611,548	695,355	546,323	(149,032)
Sales and other conversion of assets	6,000	-	70,917	70,917
Total revenues	<u>20,674,128</u>	<u>21,729,219</u>	<u>21,703,081</u>	<u>(26,138)</u>
Expenditures				
Administration	1,045,788	1,061,787	1,059,353	(2,434)
District support services	929,334	899,426	1,162,284	262,858
Elementary and secondary regular instruction	8,832,504	9,091,268	8,809,165	(282,103)
Vocational education instruction	402,816	380,548	382,559	2,011
Special education instruction	3,913,616	3,945,016	3,717,392	(227,624)
Instructional support services	893,137	1,041,633	955,019	(86,614)
Pupil support services	2,041,958	1,978,872	1,935,501	(43,371)
Sites and buildings	2,668,029	3,265,959	2,902,297	(363,662)
Fiscal and other fixed cost programs	253,195	253,195	252,679	(516)
Debt service	169,042	194,601	246,567	51,966
Total expenditures	<u>21,149,419</u>	<u>22,112,305</u>	<u>21,422,816</u>	<u>(689,489)</u>
Excess of revenues over (under) budget	(475,291)	(383,086)	280,265	663,351
Other Financing Sources	<u>-</u>	<u>-</u>	<u>433,868</u>	<u>433,868</u>
Net change in fund balances	\$ (475,291)	\$ (383,086)	\$ 714,133	\$ 1,097,219

Revenues were under budget by \$26,138. The largest variance was in federal revenues, which was under budget due to budgeting for higher federal special education aid.

Expenditures were under budget by \$689,489. Sites and buildings expenditures were \$363,662 under budget due to less than anticipated repair and maintenance costs. Regular instruction expenditures were \$282,309 under budget due to salary expenditures being lower than projected as well as purchased service costs for payments to other districts for alternative schooling options. Special education expenditures were \$227,624 under budget due to less than budgeted salary costs along with other expenditures being budgeted conservatively. District support services expenditures were over budget due to the lease transaction.

**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,	2021	2022	2023	2024	2025
Revenues	\$ 18,630,139	\$ 19,061,229	\$ 19,783,214	\$ 21,227,218	\$ 21,703,081
Expenditures	18,755,373	20,188,015	21,556,871	19,984,362	21,422,816
Excess of revenues over (under) expenditures	(125,234)	(1,126,786)	(1,773,657)	1,242,856	280,265
Plus other sources	1,417,919	1,067,531	181,638	1,863,747	433,868
Fund balance, July 1	4,209,301	5,501,986	5,442,731	3,850,712	6,957,315
Fund Balance, June 30	\$ 5,501,986	\$ 5,442,731	\$ 3,850,712	\$ 6,957,315	\$ 7,671,448

Components of Fund Balance	2021	2022	2023	2024	2025
Nonspendable	\$ 107,624	\$ 126,230	\$ 127,878	\$ 19,387	\$ 18,733
Restricted/reserved for					
Literacy Incentive Aid	-	-	-	31,768	75,308
Student activities	149,752	152,603	135,552	167,140	145,955
Operating capital	359,946	199,021	184,273	245,220	159,259
Long term facilities maintenance	623,951	473,746	685,773	927,050	835,073
Medical assistance	333,052	438,324	456,909	556,745	651,760
Basic skills	-	-	-	92,893	92,893
Dental self insurance	-	-	-	98,327	98,327
Safe schools revenue	-	-	-	-	5,271
Teacher Comp READ Act	-	-	-	-	32,508
Assigned	300,000	441,858	387,584	1,683,219	2,450,000
Unassigned	3,627,661	3,610,949	1,872,743	3,135,566	3,106,361
Fund Balance, June 30	\$ 5,501,986	\$ 5,442,731	\$ 3,850,712	\$ 6,957,315	\$ 7,671,448

In 2025, the District's revenues increased \$475,863 and expenditures increased \$1,438,454 as discussed earlier. The General Fund balance increased \$714,133 as a result of current year activity.

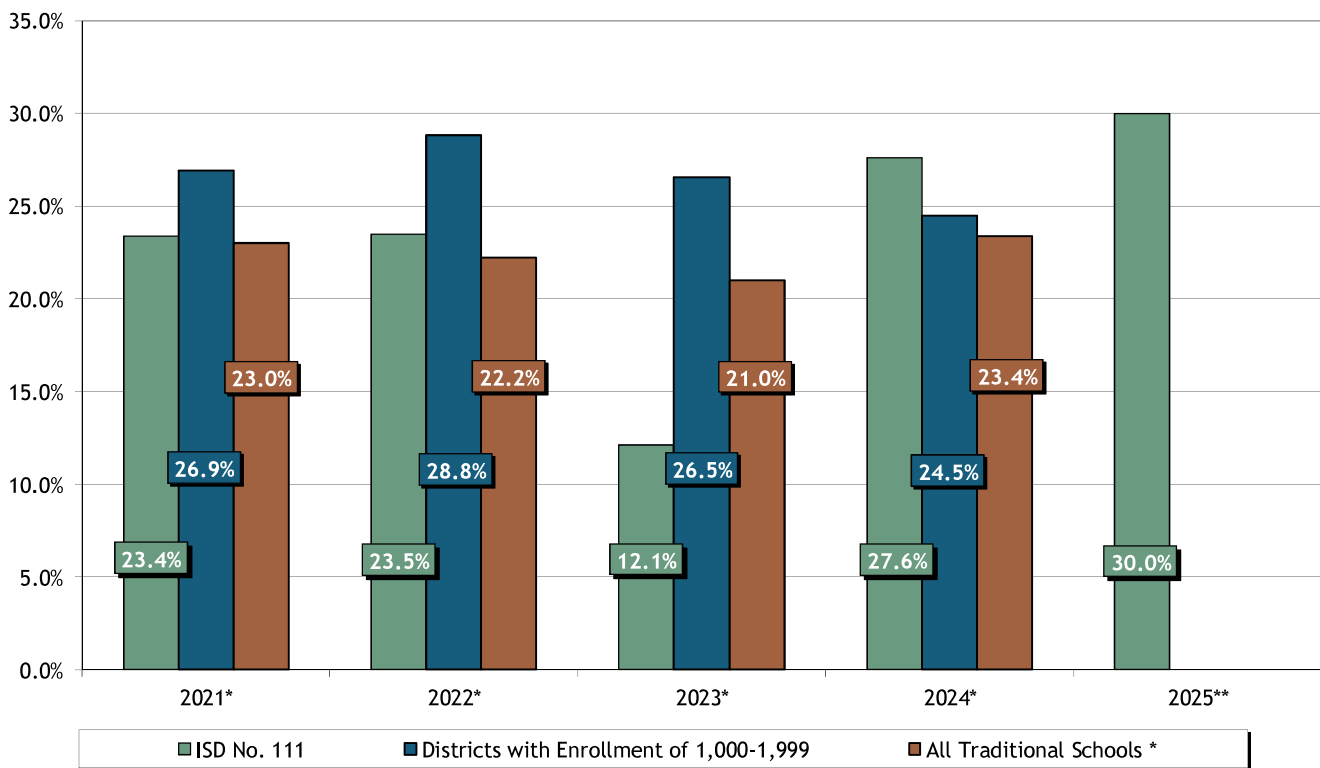
The District's goal is to maintain a minimum unassigned General Fund balance of not less than 10% of the annual operating expenditures for each year. The unassigned fund balance of \$3,106,361 at June 30, 2025, represents 14.5% of current year expenditures.

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

District Financial Health

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

Unrestricted Fund Balance as a Percent of Unrestricted Expenditures



* Source: *School District Profiles*; 2025 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 had remained below the average for similar size districts for 2021 through 2023 before rising above those averages in 2024. Since 2021, the District's unrestricted fund balance as a percentage of expenditures has remained slightly over the state-wide average except for 2023, which was down temporarily based on the timing of capital outlay expenditures prior to being reimbursed in 2024 following the issuance of tax abatement bonds. At the end of 2025, the District's unrestricted fund balance as a percent of expenditures reached its highest point of the five years presented at 30.0%.

**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,	2021	2022	2023	2024	2025
Revenues	\$ 535,378	\$ 1,066,843	\$ 881,431	\$ 1,169,806	\$ 1,183,845
Expenditures	534,115	798,580	880,209	953,374	1,258,467
Excess of revenues over (under) expenditures	1,263	268,263	1,222	216,432	(74,622)
Fund balance, July 1	50,917	52,180	320,443	321,665	538,097
Fund Balance, June 30	\$ 52,180	\$ 320,443	\$ 321,665	\$ 538,097	\$ 463,475

In 2025, expenditures exceeded revenues, resulting in a decrease in fund balance of \$74,622. Revenues increased by \$14,039 while expenditures increased by \$305,093 due in large part to capital equipment purchases.

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,	2021	2022	2023	2024	2025
Revenues and transfers in	\$ 1,690,401	\$ 2,042,069	\$ 2,111,227	\$ 2,128,948	\$ 2,308,659
Expenditures	1,577,501	1,752,732	1,941,079	1,974,443	2,352,467
Excess of revenues over (under) expenditures	112,900	289,337	170,148	154,505	(43,808)
Fund balance, July 1	173,134	286,034	575,371	745,519	900,024
Fund Balance, June 30	\$ 286,034	\$ 575,371	\$ 745,519	\$ 900,024	\$ 856,216

In 2025, revenues increased by \$179,711 primarily due to increased programming and fees collected. Expenditures increased by \$378,024 due to increased programming and higher salary and benefit costs. The Community Service Fund saw a decrease in fund balance of \$43,808 for the year.

**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).

Achievement and Integration Revenue

The administrative amount of each district's initial achievement and integration revenue that MDE may retain for administration of the program increased from 0.3% to 1.3% for the second prior fiscal year beginning in 2026 and later.

Basic Alternative Teacher Compensation Aid (Q-Comp)

The total cap for basic alternative teacher compensation aid increased to \$89,486,000 for 2026 and beyond. Unspent "Q Comp" funds must be reserved in a restricted fund balance and used only for their intended purpose.

Basic General Education Aid

The formula allowance for 2025 was set at \$7,281 and for 2026, the formula allowance increases to \$7,481, which is a 2.7% increase over 2025.

Compensatory Education Revenue

For fiscal year 2026 only, the compensation revenue pupil units for each building in a district are set equal to the greater of the building's actual compensation revenue pupil units for revenue in FY 2026, or the building's actual compensation revenue pupil units computed for revenue in FY 2024. The transition to the new compensatory formula enacted in Minnesota Laws 2023, chapter 55 has been delayed until fiscal year 2027.

English Learner Aid and Cross Subsidy

For 2026, the aid is \$1,228 times the greater of 20 or total English learner ADM. For 2027, this increases to \$1,775 times the greater of 20 or total English learner ADM. The English learner concentration formula amount increases from \$436 in 2026 to \$630 in 2027. For 2027 and later, a district's Cross Subsidy Aid equals 25% of the district's cross subsidy, which is the greater of zero or the difference between the district's expenditures for qualifying services for the second prior year and the district's English learner revenue for the second previous year.

Food Service Net Cash Resource Limitation

The temporary 6-month net cash resource limit of operating expenditures in the Food Service Fund has been extended through fiscal year 2026 for authorities who provide justification for higher balances.

Long-Term Facilities Maintenance (LTFM) Revenue

Districts may include roof repair and replacement costs totaling \$100,000 or more per site in the annual LTFM revenue authority effective for fiscal year 2027 and later. The LTFM equalizing factor increased to offset the projected increase in statewide LTFM levies with additional equalization aid.

Pension Bill and Pension Adjustment Revenue

Minnesota Laws 2025, chapter 37, article 13, section 1 increases the pension adjustment rate for all other districts (besides ISD No. 625, St. Paul) in fiscal year 2026 and later from 2.0% to 2.31%. Article 13, section 2 increases the employer contribution to the Teachers Retirement Association in the special revenue fund in fiscal year 2026 and later from 9.5% to 9.81% of the salary of each coordinated member and from 13.5% to 13.81% of the salary of each basic member.

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

School Library Aid

Beginning in fiscal year 2026, the school library aid per pupil allowance is reduced from \$16.11 to \$10.27 for 2026 and 2027, and \$9.12 for 2028 and later. The minimum amount for a school district is reduced from \$40,000 to \$20,000, while the minimum amount for a charter school is reduced from \$20,000 to \$10,000 beginning in 2026.

Special Education Aid

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

Student Support Personnel Aid

Beginning in fiscal year 2026, the per pupil allowance is reduced from \$48.73 to \$30.05 in 2026 and 2027, and \$34.32 in 2028 and later. The cooperative student support allowance is reduced from \$2.44 to \$1.60 in 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:

- **Accounting Standard Update - GASB Statement No. 103 - *Financial Reporting Model Improvements***

GASB has issued GASB Statement No. 103 relating to changes in financial reporting requirements. The changes provide clarity, enhance the relevance of information, provide more useful information for decision-making, and provide for greater comparability amongst government entities.

- **Accounting Standard Update - GASB Statement No. 104 - *Disclosure of Certain Capital Assets***

GASB has issued GASB Statement No. 104 relating to capital asset disclosures. The disclosures required by this Statement provide users of the financial statements with essential information about certain types of capital assets.

The following are summaries 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.

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

Accounting Standard Update - GASB Statement No. 103 - *Financial Reporting Model Improvements*

The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

This Statement addresses 5 areas of the financial statements (1) Management's Discussion and Analysis (MD&A), (2) Unusual or Infrequent Items, (3) Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position, (4) Major Component Unit Information, and (5) Budgetary Comparison Information.

This Statement continues the requirement that the MD&A precede the basic financial statements as part of the Required Supplementary Information (RSI). This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. The Statement stresses that detailed analyses should explain why balances and results of operations changed, rather than stating amounts and "boilerplate" discussions.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. The Statement provides clarification regarding operating and nonoperating revenues and expenses. Also, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This Statement requires governments to present budgetary comparison information using a single method of communication - RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

GASB Statement No. 103 is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

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

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

Accounting Standard Update - GASB Statement No. 104 - *Disclosure of Certain Capital Assets*

The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets continue to be disclosed separately in the capital assets note disclosures including presentation of capital assets by major class and separate disclosure of lease assets, subscription assets, and intangible right-to-use assets.

This Statement requires additional disclosures for capital assets held for sale. A capital asset is held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date.

Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

GASB Statement No. 104 is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

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