

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

**Communications Letter
of the Student Activity Accounts**

June 30, 2019

**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, Management
Advisors, and Students
Independent School District No. 111

In planning and performing our audit of the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's student activity account'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's student activity account's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's student activity account's internal control.

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

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

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

The material weakness identified is stated within this letter.

A significant deficiency is a deficiency, or 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.

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 21, 2019

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

Inadequate Design of Internal Control

The District's student activity accounts have not established procedures to provide assurance that all cash collections are recorded in the accounting records. In addition, the District's student activity accounts does not have adequate segregation of accounting duties due to a limited number of office employees. Administration is 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 exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to achieve. Administration and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

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

We have audited the financial statements of the student activity accounts of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota for the year ended June 30, 2019. Professional standards require that we standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

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

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. Since the District's student activity accounts' has not established procedures to provide assurance the cash collections are not recorded in the accounting records it is not practical for us to extend our audit of such collections beyond the amount recorded.

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.

Our Responsibility in Relation to *Government Auditing Standards*

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

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.

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

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District's student activity accounts are included in the note to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2019. 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.

Financial Statement Disclosures

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

Significant Difficulties Encountered During the Audit

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

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

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 student activities accounts 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.

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

Other Significant Matters, Audit Findings, or Issues

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

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

**Financial Statements of
the Student Activity Accounts**

June 30, 2019

Independent School District No. 111
Watertown-Mayer Schools
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Independent Auditor's Report

To the School Board,
Advisors, and Students
Independent School District No. 111
Watertown, Minnesota

Report on the Financial Statements

We have audited the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, for the year ended June 30, 2019, and the related note to student activity accounts' financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the financial reporting provisions of the Minnesota Department of Education. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in the note to financial statement, the financial statement is prepared by the District on the basis of the financial reporting provisions of the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the financial reporting requirements of the Minnesota Department of Education.

The effects on the financial statement of the variances between the regulatory basis of accounting described in the note to financial statement and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

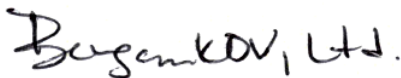
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America" paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of the District as of June 30, 2019, or changes in the financial position for the year then ended.

Basis for Qualified Opinion – Regulatory Basis of Accounting

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded.

Qualified Opinion – Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion – Regulatory Basis of Accounting" paragraph, the financial statement referred to above presents fairly, in all material respects, the cash balances of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, student activity accounts for the year ended June 30, 2019, and the cash transactions for the year then ended in accordance with the financial reporting provisions of the Minnesota Department of Education as described in the note to financial statement.



St. Cloud, Minnesota
October 21, 2019

**Independent School District No. 111
Watertown - Mayer Schools
Statement of Receipts and Disbursements
Year Ended June 30, 2019**

Activity	Balance June 30, 2018	Receipts and Transfers In	Disbursements and Transfers Out	Balance June 30, 2019
High School				
Band	\$ 22,332	\$ 9,118	\$ 18,514	\$ 12,936
Baseball	15,659	5,900	6,704	14,855
Basketball-Boys	783	60	185	658
Basketball-Girls	579	1,115	767	927
BPA	3,782	13,996	12,977	4,801
Chorus	2,328	3,729	4,770	1,287
Class of 2019	10,821	-	10,821	-
Class of 2020	46	26,664	20,199	6,511
Class of 2021	45	670	654	61
Class of 2022	-	560	473	87
Cross Country	3,209	4,414	2,999	4,624
Ecology	3,507	1,556	1,186	3,877
FFA-General	4,118	21,909	22,471	3,556
FFA-Agronomy	7,684	-	-	7,684
Football	12,630	19,704	10,862	21,472
General Account	308	496	31	773
Game Club	141	-	141	-
Golf Team	3,390	9,038	8,550	3,878
Gymnastics Team	6,283	3,533	2,403	7,413
Mentorship Program	445	-	445	-
NHS	1,763	2,630	3,026	1,367
Post Prom Party	11,466	17,697	16,987	12,176
Public Relations	160	-	32	128
Unified Sports	375	3,751	2,540	1,586
Soccer-Boys	1,534	-	-	1,534
Soccer-Girls	2,056	-	500	1,556
Softball	818	-	165	653
Spanish Trip	478	-	-	478
Student Council	1,420	1,021	1,435	1,006
Supermileage	74	5,704	4,712	1,066
Swim Team-Girls	4,552	79	353	4,278
Track	677	577	219	1,035
Volleyball	6,202	7,495	5,022	8,675
Weight Room-Summer	76	-	76	-
Wrestling	170	-	170	-
Drama	787	1,310	1,256	841
Trap	2,332	5,319	345	7,306
FCCLA	16	800	-	816
Robotics	-	19,684	10,802	8,882
Total High School	<u>133,046</u>	<u>188,529</u>	<u>172,792</u>	<u>148,783</u>
Middle School				
Student Council	3,538	5,268	6,373	2,433
Yearbook	1,832	425	-	2,257
Total Middle School	<u>5,370</u>	<u>5,693</u>	<u>6,373</u>	<u>4,690</u>
Elementary School				
Student Council	260	2,861	504	2,617
Total	<u>\$ 138,676</u>	<u>\$ 197,083</u>	<u>\$ 179,669</u>	<u>\$ 156,090</u>
Analysis of balance				
Checking				<u>\$ 156,090</u>

See note to student activity accounts financial statements.

Independent School District No. 111
Watertown-Mayer Schools
Note to Student Activity Accounts' Financial Statement

Student activity account transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fundraising events.

The accounts of the Student Activity Funds are maintained, and the accompanying financial statement has been prepared, on a regulatory basis of accounting prescribed by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

As of July 1, 2019, these accounts have been taken under board control and will no longer be reported separately.

**Report on Compliance with the
*Manual for Activity Fund Accounting***

Independent Auditor's Report

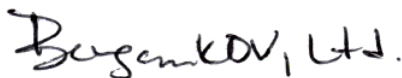
To the School Board,
Advisors, and Students
Independent School District No. 111
Watertown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, for the year ended June 30, 2019, and the related note to student activity accounts' financial statement and have issued our report thereon dated October 21, 2019. We expressed an adverse opinion on accounting principles generally accepted in the United States of America because the financial statement is prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123B.49, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this Manual.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, except as described in the Schedule of Findings and Corrective Action Plans on Compliance with the *Manual for Activity Fund Accounting*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



St. Cloud, Minnesota
October 21, 2019

**Independent School District No. 111
Watertown-Mayer Schools
Schedule of Findings and Corrective Action Plans on
Compliance with the *Manual for Activity Fund Accounting***

CURRENT AND PRIOR YEAR FINDING:

Ensure Activity Purpose Forms and Officer Listings Are Accurately Completed Annually

The *Manual for Activity Fund Accounting* requires an Activity Purpose Form exist for each activity within the fund. The Form needs to include the name of the advisor, acknowledgement of the receipt, and acknowledgement of responsibility for assuring proper procedures are followed. These forms must be completed, signed by the advisor and principal, and placed on file at the district office.

Two of the District's student activity accounts did not have an activity purpose form or an officer listing available.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will be implementing board-controlled activities in fiscal year 2020.
3. Official Responsible for Ensuring CAP
Lisa Raiter, Finance Officer, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2020.
5. Plan to Monitor Completion of CAP
The Superintendent will be monitoring this CAP.