

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

**Communications Letter
of the Student Activity Accounts**

June 30, 2018



**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, 2018, 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 auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, 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 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 change 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 30, 2018

**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, 2018. 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 is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Since the District's student activity accounts has not established procedures to provide assurance that cash collections are not recorded in the accounting records, it is not practical for us to extend our audit of such cash collections beyond the amounts recorded.

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's student activity accounts 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's student activity accounts or to acts by management or employees acting on behalf of the District's student activity accounts.

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**

SIGNIFICANT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

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 2018. We noted no transactions entered into by the District's student activity accounts 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.

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

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. Further, professional standards require us to also communicate the effect 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 the audit.

REPRESENTATIONS REQUESTED FROM MANAGEMENT

We 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 auditors.

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

**Financial Statements of
the Student Activity Accounts**

June 30, 2018



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, 2018, 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 statements referred to above do 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, 2018, 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, 2018, 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.

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

St. Cloud, Minnesota
October 30, 2018

**Independent School District No. 111
Watertown - Mayer Schools
Statement of Receipts and Disbursements
Year Ended June 30, 2018**

| Activity | Balance June 30, 2017 | Receipts and Transfers In | Disbursements and Transfers Out | Balance June 30, 2018 |
|--------------------------|--------------------------|------------------------------|---------------------------------------|--------------------------|
| High School | | | | |
| Band | \$ 16,094 | \$ 23,311 | \$ 17,073 | \$ 22,332 |
| Baseball | 15,116 | 5,530 | 4,987 | 15,659 |
| Basketball-Boys | 1,475 | 199 | 891 | 783 |
| Basketball-Girls | 511 | 1,963 | 1,895 | 579 |
| BPA | 3,069 | 12,425 | 11,712 | 3,782 |
| Chorus | 3,340 | 5,819 | 6,831 | 2,328 |
| Class of 2018 | 8,003 | 685 | 8,688 | - |
| Class of 2019 | 4 | 17,435 | 6,618 | 10,821 |
| Class of 2020 | 46 | 819 | 819 | 46 |
| Class of 2021 | - | 300 | 255 | 45 |
| Cross Country | 2,060 | 4,440 | 3,291 | 3,209 |
| Ecology | 3,551 | 320 | 364 | 3,507 |
| FFA-Foundation | 916 | 5,842 | 6,758 | - |
| FFA-General | 7,254 | 25,065 | 28,201 | 4,118 |
| FFA-Agronomy | 5,295 | 5,590 | 3,201 | 7,684 |
| Football | 8,991 | 13,008 | 9,369 | 12,630 |
| General Account | 377 | - | 69 | 308 |
| Game Club | 141 | - | - | 141 |
| Golf Team | 607 | 10,813 | 8,030 | 3,390 |
| Gymnastics Team | 4,973 | 2,409 | 1,099 | 6,283 |
| Mentorship Program | 445 | - | - | 445 |
| NHS | 1,024 | 3,250 | 2,511 | 1,763 |
| Post Prom Party | 9,962 | 15,455 | 13,951 | 11,466 |
| Public Relations | 160 | - | - | 160 |
| Unified Sports | - | 971 | 596 | 375 |
| School Store | 596 | - | 596 | - |
| Soccer-Boys | 1,534 | - | - | 1,534 |
| Soccer-Girls | 2,056 | - | - | 2,056 |
| Softball | 2,068 | - | 1,250 | 818 |
| Spanish Trip | 5,803 | 2,495 | 7,820 | 478 |
| Student Council | 1,526 | 3,636 | 3,742 | 1,420 |
| Supermileage | 856 | 2,480 | 3,262 | 74 |
| Swim Team-Boys | 3 | 474 | 477 | - |
| Swim Team-Girls | 4,582 | 166 | 196 | 4,552 |
| Track | 644 | 448 | 415 | 677 |
| Volleyball | 2,804 | 7,298 | 3,900 | 6,202 |
| Weight Room-Summer | 76 | - | - | 76 |
| Wrestling | 170 | - | - | 170 |
| Drama | 168 | 1,338 | 719 | 787 |
| Trap | 1,900 | 4,571 | 4,139 | 2,332 |
| FCCLA | - | 16 | - | 16 |
| Total High School | <u>118,200</u> | <u>178,571</u> | <u>163,725</u> | <u>133,046</u> |
| Middle School | | | | |
| Student Council | 3,398 | 5,770 | 5,630 | 3,538 |
| Yearbook | 1,818 | 622 | 608 | 1,832 |
| Total Middle School | <u>5,216</u> | <u>6,392</u> | <u>6,238</u> | <u>5,370</u> |
| Elementary School | | | | |
| Student Council | 1,901 | 2,889 | 4,530 | 260 |
| Total | <u>\$ 125,317</u> | <u>\$ 187,852</u> | <u>\$ 174,493</u> | <u>\$ 138,676</u> |
| Analysis of balance | | | | |
| Checking | | | | <u>\$ 138,676</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.

**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, 2018, and the related note to student activity accounts financial statement and have issued our report thereon dated October 30, 2018. We expressed an adverse opinion on accounting principles generally accepted in the United States of America because the financial statements are 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.

BerganKDV, Ltd.

St. Cloud, Minnesota
October 30, 2018

**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.

A majority of the District's student activity accounts (20/40) did not have the purpose for the account on their activity purpose forms. Additionally 3 did not have 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 ensure activity purpose forms and officer listings are completed for all activities.
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, 2019.
5. Plan to Monitor Completion of the CAP
The Superintendent will be monitoring this CAP.

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

PRIOR YEAR FINDING:

Close Inactive Accounts

According to the *Manual for Activity Fund Accounting*, inactive accounts should be closed and the monies distributed.

During our 2018 audit, we noted the Game Club, Soccer – Boys, Wrestling, and Weight Room – Summer account have been inactive for the past two years as there were no receipts or disbursements in 2018 or 2017.

CORRECTIVE ACTION TAKEN:

The advisor for each inactive account submitted a plan to their respective building principal indicating why the activity has been inactive and why it should not be terminated. The building principal approved all plans.