

INDEPENDENT SCHOOL DISTRICT NO. 622
NORTH ST. PAUL – MAPLEWOOD – OAKDALE,
MINNESOTA

Extracurricular Student Activity Accounts
Financial Statement

Year Ended
June 30, 2016

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PRINCIPALS

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INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 622
North St. Paul – Maplewood – Oakdale, Minnesota

REPORT ON THE FINANCIAL STATEMENT

We have audited the accompanying statement of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 622 (the District) as of and for the year ended June 30, 2016, and the related notes to the extracurricular student activity accounts financial statement.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENT

The District's extracurricular student activities management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1 of the notes to extracurricular student activity accounts financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is 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 from 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 statement, 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 the financial statement 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 opinions.

(continued)

BASIS FOR QUALIFIED OPINION

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

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statement referred to on the previous page presents fairly, in all material respects, the cash balances of the District's extracurricular student activity accounts as of June 30, 2016, and the cash receipts and disbursements for the year then ended, on the cash basis of accounting described in Note 1 of the notes to extracurricular student activity accounts financial statement.

BASIS OF ACCOUNTING

We draw attention to Note 1 of the notes to extracurricular student activity accounts financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
December 8, 2016

INDEPENDENT SCHOOL DISTRICT NO. 622

Summary of Extracurricular Student Activity Accounts
 Statement of Cash Receipts and Disbursements
 Year Ended June 30, 2016

	<u>Balance – June 30, 2015</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance – June 30, 2016</u>
North High School	\$ 46,646	\$ 140,624	\$ 147,592	\$ 39,678
Tartan High School	65,860	163,855	177,204	52,511
John Glenn Middle School	14,999	7,370	8,778	13,591
Maplewood Middle School	42,242	7,359	19,287	30,314
Skyview Middle School	13,087	32,632	35,457	10,262
	<u>\$ 182,834</u>	<u>\$ 351,840</u>	<u>\$ 388,318</u>	<u>\$ 146,356</u>

See notes to extracurricular student activity accounts financial statement

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INDEPENDENT SCHOOL DISTRICT NO. 622

Notes to Extracurricular Student Activity Accounts Financial Statement
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Extracurricular student activity fund 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.

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

The accounts of Independent School District No. 622's (the District) extracurricular student activity accounts are maintained, and the accompanying financial statement has been prepared, on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Consequently, receipts are recorded when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

NOTE 2 – CASH AND INVESTMENTS

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board for extracurricular student activity accounts.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

The District's deposit policies do not further limit depository choices.

At year-end, extracurricular student activity account deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

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OTHER REQUIRED REPORTS

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INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

To the School Board and Management of
Independent School District No. 622
North St. Paul – Maplewood – Oakdale, Minnesota

In planning and performing our audit of the statement of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 622 (the District) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Corrective Action as item 2016-001 to be a material weakness.

The District's response to the finding identified in our audit has been included in the Schedule of Findings and Corrective Action. The District's response was not subject to the auditing procedures applied in our audit of the financial statement and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of those charged with governance, management of the District, and the state of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
Minneapolis, Minnesota
December 8, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board and Management of
Independent School District No. 622
North St. Paul – Maplewood – Oakdale, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 622 (the District) as of and for the year ended June 30, 2016, and the related notes to the extracurricular student activity accounts financial statement, and have issued our report thereon dated December 8, 2016. Our report was qualified for a restriction on the scope of our audit resulting from the accounting system relating to cash receipts, which allows us only to audit cash collections that are recorded. Further, the financial statement is prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The provisions of the *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, provides uniform financial accounting and reporting standards for student activities. Compliance with student activity laws and regulations is the responsibility of the District's extracurricular student activity accounts management. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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 as item 2016-002. 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 District's response to the finding identified in our audit has been included in the Schedule of Findings and Corrective Action. The District's response was not subject to the auditing procedures applied in our audit of the financial statement and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of those charged with governance, management of the District, and the state of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
Minneapolis, Minnesota
December 8, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 622

Extracurricular Student Activities Accounts
Schedule of Findings and Corrective Action
Year Ended June 30, 2016

FINDINGS AND CORRECTIVE ACTION

2016-001 MATERIAL WEAKNESS IN INTERNAL CONTROLS – CASH RECEIPTS

Condition – Independent School District No. 622 (the District) reports the cash receipts and disbursements of its extracurricular student activity accounts on the cash basis. The internal controls at the various district school sites are not sufficient to ensure that all cash receipts have been recorded.

Type of Finding – Current year and prior year finding.

Criteria – Management is responsible for establishing and maintaining a system of internal controls sufficient to reduce to an acceptable level, the possibility that a material misstatement of the District’s financial statement will not be prevented, or detected and corrected, on a timely basis.

Recommendation – We recommend that the District continue to review the internal controls over extracurricular student activity accounts at its various school sites, and consider adding procedures to strengthen the controls over the recording of cash receipts, such as the use and reconciliation of prenumbered receipts, the use and reconciliation of prenumbered admission tickets for events, and inventory controls over items sold for fundraisers. As is the case with all internal controls, the potential benefit of any contemplated procedural modifications in this area should be weighed against the cost.

Corrective Action Plan

Actions Planned – The District’s Finance Department personnel regularly reviews internal controls over extracurricular student activity account transactions along with the personnel at the various district school sites that maintain such accounts. The District will continue this process, and will evaluate whether implementing additional control procedures over the recording of cash receipts is cost beneficial and practical within the limitations of the staffing available at the school sites.

Official Responsible – The Director of Business Services.

Planned Completion Date – June 30, 2017.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

Plan to Monitor – The Director of Business Services will oversee the continued review and evaluation of internal controls over the recording of extracurricular student activity account receipts at the District’s various school sites, and the implementation of any control procedure modifications.

INDEPENDENT SCHOOL DISTRICT NO. 622

Extracurricular Student Activities Accounts
Schedule of Findings and Corrective Action (continued)
Year Ended June 30, 2016

FINDINGS AND CORRECTIVE ACTION (CONTINUED)

2016-002 ACCOUNTS WITH DEFICIT BALANCES

Condition – We noted 3 of 52 student activity accounts had deficit balances at year-end. Accounts are not allowed to have deficit balances, and the activity advisor may be held personally responsible if the account does go negative.

Type of Finding – Current year finding.

Criteria – *Manual for Activity Fund Accounting*.

Recommendation – It is our recommendation that the District ensure all student activity accounts do not have disbursements that exceed the cash receipts available. We also recommend that the District eliminate all student activity account balance deficits with future cash receipts of those accounts or by transfers from other student activity accounts.

Corrective Action Plan

Actions Planned – The District’s Finance Department will review the requirements for proper student activity receipts per the *Manual for Activity Fund Accounting* with individuals responsible for overseeing student activity accounts and will continue to monitor these transactions to ensure all student activity accounts maintain positive balances.

Official Responsible – The Director of Business Services.

Planned Completion Date – June 30, 2017.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

Plan to Monitor – The Director of Business Services will ensure that the responsible individuals are aware of the requirements for student activity accounts per the *Manual for Activity Fund Accounting*, and will direct the District’s business office staff to monitor student activity balances to ensure they do not go into deficit.