

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND OTHER REQUIRED REPORTS**

**JUNE 30, 2016**

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LAKEVILLE AREA PUBLIC SCHOOLS  
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## **SINGLE AUDIT AND OTHER REQUIRED REPORTS**



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## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

School Board  
Independent School District No. 194  
Lakeville Area Public Schools  
Lakeville, Minnesota

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeville Area Public Schools (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 14, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its 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, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Lakeville Area Public Schools' Response to Findings**

Lakeville Area Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Lakeville Area Public Schools' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 14, 2016



# CliftonLarsonAllen

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

School Board  
Independent School District No. 194  
Lakeville Area Public Schools  
Lakeville, Minnesota

### **Report on Compliance for Each Major Federal Program**

We have audited Independent School District No. 194's ("the District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Lakeville Area Public Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-002, which we consider to be a material weakness. We also identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-003, which we consider to be a significant deficiency.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 14, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 14, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
Passed Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Non-Cash Assistance (Commodities):		
National School Lunch Program	{a} 10.555	\$ 264,778
Cash Assistance:		
School Breakfast Program	{a} 10.553	97,773
National School Lunch Program	{a} 10.555	917,084
Cash Assistance Subtotal		<u>1,014,857</u>
Total U.S. Department of Agriculture		1,279,635
<b>U.S. DEPARTMENT OF EDUCATION</b>		
Passed Through Minnesota Department of Education:		
Adult Education - Basic Grants to States	84.002	6,995
Title I - Part A	84.010	601,407
Special Education Flow-Thru	{b} 84.027	1,603,530
Special Education Preschool Grants	{b} 84.173	44,477
Special Education Infants and Toddlers Program	84.181	36,585
Title II - Improving Teacher Quality	84.367	122,327
Title III - English Language Acquisition	84.365	40,313
Total U.S. Department of Education		<u>2,455,634</u>
Passed Through SouthWest Metro Education Cooperative (6088):		
Carl Perkins vocational and applied technology	84.048	59,065
Total Passed Through SouthWest Metro Education Coop		<u>59,065</u>
Total Federal Awards		<u>\$ 3,794,334</u>

{a} - Child Nutrition Cluster  
{b} - Special Education Cluster

Notes to Schedule of Expenditures of Federal Awards:

Note 1:

The pass-through award number is unknown.

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lakeville Area Public Schools under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Lakeville Area Public Schools, it is not intended to and does not present the financial position, changes in fund balance, or cash flows of Lakeville Area Public Schools.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Lakeville Area Public Schools does not charge indirect costs to its federal programs, however if they were to charge indirect costs they would use the indirect cost rate provided to them by the Minnesota Department of Education (the pass-through entity) rather than use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

School Board  
Independent School District No. 194  
Lakeville Area Public Schools  
Lakeville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 194 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 14, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our study included all of the listed categories.

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 *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 School's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Schools compliance. Accordingly, this communication is not suitable for any other purpose.

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 14, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

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**Section I – Summary of Auditors’ Results**

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***Financial Statements***

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? \_\_\_\_\_ yes        x   no
  - Significant deficiency(ies) identified?   x   yes      \_\_\_\_\_ none reported
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes        x   no

***Federal Awards***

1. Internal control over major federal programs:
- Material weakness(es) identified?   x   yes      \_\_\_\_\_ no
  - Significant deficiency(ies) identified?   x   yes      \_\_\_\_\_ none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?   x   yes      \_\_\_\_\_ no

***Identification of Major Federal Programs***

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
84.027 & 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$   \$750,000  

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes        x   no

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

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**Section II – Financial Statement Findings**

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**2016 – 001: Capital Asset Procedures**

Type of Finding: Capital Asset Procedures: Significant Deficiency in Internal Control over Financial Reporting

**Condition:** There is no reconciliation being completed between the capital asset module in TIES and the financial statements and schedules. We also noted that District had not completed a full capital asset inventory since 2001. The District staff that completes that capital assets listing does not send the capital asset listing to department heads to confirm the completeness of and existence of additions and disposals of assets in their departments and locations.

**Criteria:** The District should have controls in place to ensure all capital assets are properly recorded

**Context:** While performing audit procedures of capital assets, it was noted that management does not have procedures in place to annually reconcile their capital assets module in TIES to the financial statements and supporting schedules. We also noted that they had not completed a full inventory since 2001. Finally, we noted that they did not confirm the completeness and existence of additions and disposals with department heads.

**Effect:** The design of the internal controls over capital assets may limit the District's ability to detect or prevent a misstatement of the financial statements, misappropriation of assets, or fraudulent activity

**Cause:** Unknown

**Recommendation:** We recommend District management review its procedures and controls related to capital assets. We recommend that the revised procedures include the reconciliation of the capital assets module in TIES to the financial statements and supporting schedules as well as conducting physical inventory counts on a regular basis. Additionally, recommend that the revised procedures include an annual communication of the capital asset listings to the District's principals and directors.

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with audit finding:** There is no disagreement with the audit finding.

**Actions planned in response to finding:** The District will work to ensure that capital assets are properly recorded, and the District has researched this project and is implementing a full inventory control system.

**Responsible party:** The District's Executive Director of Business Services

**Planned completion date for corrective action plan:** June 30, 2017

**Plan to monitor completion of corrective action plan:** The corrective action plan will be monitored by the Board of Education as well as the audit firm each year during the annual audit.

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

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**Section III – Findings and Questioned Costs – Major Federal Programs**

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**2016 – 002: Allowable Payroll Costs**

Federal agency: U.S. Department of Education

Federal program title: Special Education Cluster

CFDA Numbers: 84.027 & 84.173

Pass-Through Agency: Minnesota Department of Education

Award Period: Fiscal year 2016

Type of Finding: Material Weakness in Internal Control over Compliance

**Criteria or specific requirement:** The District is required to retain documentation to support the time and costs of employees that are coded to the program. The District's policies were to prepare semi-annual payroll certifications for employees who work solely on a single Federal award, signed by either the employee or the employee's direct supervisor. When employees work on multiple programs, the District's policy was for the employee's time to be supported by personnel activity reports prepared at least on a monthly basis.

**Condition:** We tested a sample of payroll disbursements charged to the Special Education Cluster and, while all employees were coded within the payroll system as working on their respective Federal program and job descriptions or schedules indicated the same, we noted employees who did not complete the proper time reporting documentation. We also noted an instance where the wage rate of an employee was not supported by documentation of approval.

**Questioned costs:** \$23,405

**Context:** Of the sample of 40 payroll disbursements which we tested, we noted 14 instances where no payroll certifications could be located for the related employee, 13 instances where payroll certifications were provided but the proportion of the respective employees' wages allocated to the grant exceed that proportion indicated on the payroll certifications, and 1 instance where an employee's wage rate was not supported by an approved Change Form.

**Cause:** District is not reviewing the payroll certifications to ensure the proportion of wages allocated to the grants matches the payroll certifications. The cause for the employee that did not have an approved Change Form to support their wage rate is unknown.

**Effect:** Payroll expenditures charged to the program were not properly supported by time reporting wage rate documentation.

**Repeat Finding:** Yes

**Recommendation:** We recommend that the District implement a control process to ensure that all employees charged to federal grants complete proper time reporting documentation and provide any necessary training and instruction for personnel involved in the time reporting process.

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

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**Section III – Findings and Questioned Costs – Major Federal Programs (Continued)**

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**2016 – 002: Allowable Payroll Costs (Continued)**

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with audit finding:** There is no disagreement with the audit finding.

**Actions planned in response to finding:** During fiscal year 2017, the District will incorporate a system of internal controls to ensure that all compliance requirements are met and provide any necessary training to employees of the federal program.

**Responsible party:** The District's Executive Director of Student Services and the Executive Director of Business Services

**Planned completion date for corrective action plan:** June 30, 2017

**Plan to monitor completion of corrective action plan:** The school board will monitor the completion of this corrective action plan.

**2016 – 003: Allowable General Disbursement Costs**

Federal agency: U.S. Department of Education

Federal program title: Special Education Cluster

CFDA Numbers: 84.027 & 84.173

Pass-Through Agency: Minnesota Department of Education

Award Period: Fiscal year 2016

Type of Finding: Significant Deficiency in Internal Control over Compliance

**Criteria or specific requirement:** The District is required to retain documentation of review and approval of all expenditures.

**Condition:** We tested a sample of general disbursements charged to the Special Education Cluster and noted 5 employees for which proper support had not been retained for their monthly cell phone reimbursements. It was noted the District's control was to annually obtain and review a cell phone contract and a supporting bill from their employees, but the latest contracts and bills of the employees were from fiscal years 2014 and 2015.

**Known questioned costs:** \$540

**Likely questioned Cost:** \$34,608

**Context:** Of the sample of 40 general disbursements which we tested, we noted 8 instances where proper support of review and approval had not been retained.

**Cause:** Unknown.

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

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**Section III – Findings and Questioned Costs – Major Federal Programs (Continued)**

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**2016 – 003: Allowable General Disbursement Costs (Continued)**

**Effect:** Cell phone reimbursement expenditures charged to the program were not properly supported by documentation of review and approval.

**Repeat Finding:** No

**Recommendation:** We recommend that the District implement a control process to ensure that all cell phone reimbursements charged to federal grants are supported by documentation of review and approval.

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with audit finding:** There is no disagreement with the audit finding.

**Actions planned in response to finding:** During fiscal year 2017, the District the district will review its procedures and controls related to cell phone reimbursements and ensured that all employees receiving reimbursement complete the required forms which will be retained as support for the expenditures.

**Responsible party:** The District's Executive Director of Student Services and the Executive Director of Business Services

**Planned completion date for corrective action plan:** June 30, 2017

**Plan to monitor completion of corrective action plan:** The Board of Education will monitor the completion of this corrective action plan.

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**Section IV – Prior Year Findings**

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**2015 – 001: Material Audit Adjustments**

Corrective action was taken.

**2015 – 002: Review of Adjusting Journal Entries**

Corrective action was taken.

**2015 – 003: Capital Asset Procedures**

See current year finding 2016-001.

**Reason for finding's recurrence:** The District is still researching completing a full capital asset inventory. Also, there was turnover in the staff position that updates and maintains the capital asset listing in fiscal year 2016.

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

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**Section IV – Prior Year Findings**

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**2015 – 004: Allowable Payroll Costs**

Federal agency: U.S. Department of Education

Federal program title: Special Education Cluster

CFDA Numbers: 84.027 & 84.173

Pass-Through Agency: Minnesota Department of Education

Award Period: Fiscal year 2016

Type of Finding: Significant Deficiency in Internal Control over Compliance

See current year finding 2016-002.

**Reason for finding's recurrence:** See cause in 2016-002.

**2015 – 005: Allowable Costs**

Federal agency: U.S. Department of Agriculture

Federal program title: Child Nutrition Cluster

CFDA Numbers: 10.553, 10.555 & 10.559

Pass-Through Agency: Minnesota Department of Education

Award Period: Fiscal year 2016

Corrective action was taken.

**2015 – 006: Procurement Suspension and Debarment**

Federal agency: U.S. Department of Education

Federal program title: Special Education Cluster

CFDA Numbers: 84.027 & 84.173

Pass-Through Agency: Minnesota Department of Education

Award Period: Fiscal year 2016

Type of Finding: Significant Deficiency in Internal Control over Compliance

Corrective action was taken.

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

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**Section V – MN Legal Compliance Findings**

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None noted

## **EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS**



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## INDEPENDENT AUDITORS' REPORT

Board of Education, Advisors, and Students  
Independent School District No. 194  
Lakeville, Minnesota

### **Report on the Financial Statement**

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 194 (the District) as of and for the year ended June 30, 2016, and the related note to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the regulatory basis of accounting described in the note to the financial statements; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements 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 statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the 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 statements.

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

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in the note to the financial statements, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statements are prepared by Independent School District No. 194 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles 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 Independent School District No. 194 as of June, 30 2016, or changes in financial position for the year then ended.

***Basis for Qualified Opinion on Regulatory Basis of Accounting***

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

***Qualified Opinion on Regulatory Basis of Accounting***

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District No. 194 as of June 30, 2016, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statements.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 14, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
AS OF AND FOR YEAR ENDED JUNE 30, 2016**

	<b>Beginning Balance June 30, 2015</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Ending Balance June 30, 2016</b>
<b>Lakeville North High School</b>				
American Sign Language	\$ 743	\$ -	\$ 274	\$ 469
Annual	33,754	9,417	9,736	33,435
Austria	2,048	450	-	2,498
AVID	25	-	25	-
Baking	987	-	987	-
Best Buddies	1,600	5,103	4,549	2,154
Change Fund	3	-	3	-
Choir	-	200	200	-
Clay Club	182	-	182	-
Cookies	456	42	177	321
DECA	8,681	67,748	65,849	10,580
Diversity	1,357	-	1,357	-
Drama	951	7,106	7,138	919
Electricity	552	-	552	-
FCA	115	300	190	225
French Club	639	1,455	1,567	527
Guitar	314	-	314	-
HOSA	1,510	11,927	9,723	3,714
Individual's Maters/Environmental	431	-	431	-
Interest	26	593	-	619
Jazz Vocal	2,515	6,335	7,464	1,386
Junior Class	5,646	20,731	22,314	4,063
Key Club	472	1,615	346	1,741
Math Club	217	-	47	170
Mock Trail	2,333	5,698	7,767	264
National Honor Society	4,749	1,171	1,616	4,304
One Act	395	-	395	-
Panther Prep	1,303	110	1,212	201
Pathers for Life	20	220	240	-
Robotics	1,083	211	1,294	-
Rocket Club	13	591	200	404
SADD Club	3,055	-	921	2,134
SAGE	456	807	39	1,224
Science Olympiad	55	-	55	-
Senior Class	26,259	15,387	29,262	12,384
SHOC	380	350	442	288
SOS	1,365	420	225	1,560
Spanish Club	5,806	2,528	2,081	6,253
Spanish Fundraiser	2,482	46	2,528	-
Spring and Fall Play	706	-	706	-
Student Council	1,627	7,470	4,256	4,841
Travel Abroad	-	8,628	8,513	115
Unclassified	(3)	-	(2)	(1)
Vocal Music	4,760	15,460	10,502	9,718
Vocal Musical	1,674	252	1,926	-
<b>Total Lakeville North High School</b>	<b>\$ 121,742</b>	<b>\$ 192,371</b>	<b>\$ 207,603</b>	<b>\$ 106,510</b>

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
AS OF AND FOR YEAR ENDED JUNE 30, 2016**

	<b>Beginning Balance June 30, 2015</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Ending Balance June 30, 2016</b>
<b>Lakeville South High School</b>				
Anime	915	-	915	-
Annual	32,701	18,372	9,906	41,167
Band	1,122	264	969	417
Cheer Squad	212	1,325	1,250	287
Chess	133	-	133	-
Choir	509	3,819	4,310	18
Class of 2015	2,235	-	2,235	-
Class of 2016	268	11,615	11,827	56
Class of 2017	-	24,766	19,224	5,542
DECA	27,996	56,859	60,663	24,192
Diversity	28	-	28	-
Downhill Ski and Snowboard	501	873	690	684
Encore	1,650	934	1,731	853
Environmental	68	-	68	-
French Club	3,515	4,176	3,854	3,837
HOSA	2,762	8,788	7,720	3,830
Interest	-	12	12	-
Key	261	1,026	1,258	29
Links	985	2,104	1,809	1,280
Math League	190	-	190	-
Mock Trial	924	3,586	3,682	828
National Honor Society	2,009	2,227	2,045	2,191
Newspaper	470	2,405	2,418	457
SADD Club	452	28	152	328
Spanish Club	6,717	1,470	1,322	6,865
Speech	1,882	6,017	3,320	4,579
Student Council	3,549	4,961	3,055	5,455
Theatre	22,787	34,729	21,143	36,373
Tutor	540	-	540	-
Unclassified	(1)	1	-	-
Total Lakeville South High School	<u>\$ 115,380</u>	<u>\$ 190,357</u>	<u>\$ 166,469</u>	<u>\$ 139,268</u>
<b>DISTRICT TOTAL</b>	<u><u>\$ 237,122</u></u>	<u><u>\$ 382,728</u></u>	<u><u>\$ 374,072</u></u>	<u><u>\$ 245,778</u></u>

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
NOTES TO EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED 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. 194's (the District) extracurricular student activity accounts are maintained, and the accompanying financial statements have 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 Board of Education 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, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.



## CliftonLarsonAllen

Board of Education, Advisers, and Students  
Independent School District No. 194  
Lakeville Area Public Schools  
Lakeville, Minnesota

In planning and performing our audit of the statement of cash receipts and disbursements of the extracurricular student activity funds of Independent School District No. 194 (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 auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 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, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

### **Material weaknesses**

We consider the following deficiencies in the District's internal control to be material weakness.

#### **Student Activity Receipts**

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 14, 2016





# CliftonLarsonAllen

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING

Board of Education, Advisors, and Students  
Independent School District No. 194  
Lakeville Area Public Schools  
Lakeville, Minnesota

### Report on Compliance

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 Student Activity Funds of Independent School District No. 194 (the District) as of and for the year ended June 30, 2016, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated October 14, 2016. We expressed an adverse opinion on U.S. generally accepted accounting principles 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* (MAFA), issued by the Minnesota Department of Education, 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 for extracurricular student activity accounts at item 2015-008. 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 of compliance relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 14, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS  
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION  
JUNE 30, 2016**

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**Findings for Internal Control over Financial Reporting of Student Activity Accounts**

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**2016 – 004: Procedures to provide assurance that all cash collections are recorded in the accounting records**

**Condition:** The District has not established accounting procedures to provide assurance that all cash collections are recorded in the accounting records. The District records student activity revenues on the cash basis and does not have an accounting system and internal controls in place to ensure student activity receipts have been recorded.

**Effect:** The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the District's internal controls.

**Recommendation:** The accounting system and internal controls could be improved by (a) use of pre-numbered receipts with reconciliation of the numerical sequence, (b) reconciliation of merchandise purchased to items sold and items remaining at the end of the fundraiser, and (c) calculation of expected sales compared to cash receipts or various other procedures determined by management

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with audit finding:** There is no disagreement with the audit finding.

**Actions planned in response to finding:** The District records student activity revenues on the cash basis and does not have an accounting system and internal controls in place to ensure student activity revenues and receipts have been properly recorded. In consideration of the guiding principles under which the student activity funds were established, the District provides opportunities for substantial student involvement in the selection, direction, and management of fundraisers. This student involvement, although of great value to those students, is an inherent internal control weakness. The District has determined the costs of implementing controls over fundraising activities, in light of the multiple locations and times of these activities, outweigh the benefits; therefore, the District will continue to rely on activity fund advisors for appropriate oversight and supervision, but will not, at this time, implement procedures and policies to provide for detail internal control processes at each fund raising location and activity.

**Responsible party:** The Executive Director of Business Services is the school official responsible for carrying out the corrective action plan.

**Planned completion date for corrective action plan:** The corrective action plan will be carried out as part of each annual audit; therefore, the corrective action plan is ongoing.

**Plan to monitor completion of corrective action plan:** The corrective action plan will be monitored each year by the District financial staff and Board of Education as a part of the process of developing the annual audit report.

INDEPENDENT SCHOOL DISTRICT NO. 194  
LAKEVILLE AREA PUBLIC SCHOOLS  
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS  
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION  
JUNE 30, 2016

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**Section IV – Prior Year Student Activity Account Findings**

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**2015 – 008: MAFA Compliance – Inactive Accounts**

Corrective action was taken.