

INDEPENDENT SCHOOL DISTRICT NO. 194
LAKEVILLE, MINNESOTA

Extracurricular Student Activity
Accounts Financial Statements

Year Ended
June 30, 2014

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PRINCIPALS

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INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 194
Lakeville, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying statements of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 194 (the District) as of and for the year ended June 30, 2014, and the related notes to the extracurricular student activity accounts financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The District's extracurricular student activities management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1 of the notes to extracurricular student activity accounts financial statements; this includes determining that the cash 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these 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 of 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 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 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 audit opinion.

(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 statements 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, 2014, 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 statements.

BASIS OF ACCOUNTING

We draw attention to Note 1 of the notes to extracurricular student activity accounts financial statements, which describes the basis of accounting. The financial statements are 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
November 17, 2014

INDEPENDENT SCHOOL DISTRICT NO. 194

Extracurricular Student Activity Accounts
 Statement of Cash Receipts and Disbursements
 Year Ended June 30, 2014

	Beginning Balance – <u>June 30, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	Ending Balance – <u>June 30, 2014</u>
Lakeville North High School	\$ 97,229	\$ 230,408	\$ 187,757	\$ 139,880
Lakeville South High School	<u>105,399</u>	<u>191,411</u>	<u>185,959</u>	<u>110,851</u>
	<u><u>\$ 202,628</u></u>	<u><u>\$ 421,819</u></u>	<u><u>\$ 373,716</u></u>	<u><u>\$ 250,731</u></u>

See notes to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Lakeville North High School Extracurricular Student Activity Accounts
 Statement of Cash Receipts and Disbursements
 Year Ended June 30, 2014

	Beginning Balance – <u>June 30, 2013</u>	Receipts	Disbursements	Ending Balance – <u>June 30, 2014</u>
AIVD	\$ –	\$ 3,079	\$ 3,079	\$ –
American Sign Language	1,073	–	330	743
Annual	22,304	17,634	1,718	38,220
Austria	–	20,386	49	20,337
Best Buddies	400	3,192	1,888	1,704
Change Fund	3	2,351	2,351	3
Clay Club	22	160	–	182
Cookies	–	3,184	2,621	563
DECA	1,903	69,937	61,950	9,890
Diversity	111	8,600	7,776	935
Drama	(664)	116	–	(548)
Electricity	552	–	–	552
Environmental	431	–	–	431
FCA	–	9,143	9,143	–
French Club	2,007	1,152	2,221	938
GSA	1,221	760	898	1,083
Guitar	513	–	–	513
HOSA	–	3,806	3,365	441
Interest	–	11	–	11
Italy	(49)	49	–	–
Jazz Vocal	5,281	9,174	8,300	6,155
Junior Class	7,960	24,035	24,321	7,674
Panther Prep	2,058	240	812	1,486
Math Club	168	49	–	217
Mock Trail	201	3,910	4,106	5
National Honor Society	5,794	5,838	5,880	5,752
One Act	395	–	–	395
Panther Enterprises	3,083	656	902	2,837
Prolife	–	150	130	20
Robotics	3,340	1,000	3,920	420
SADD Club	1,883	1,655	1,045	2,493
Science Olympiad	66	80	88	58
Senior Class	19,137	12,938	18,112	13,963
SOS	–	2,180	760	1,420
Spanish Club	6,712	2,841	2,590	6,963
Spanish Fundraiser	2,746	66	330	2,482
Spring and Fall Play	885	1,740	1,919	706
Student Council	1,245	6,069	5,011	2,303
Unclassified	27	–	27	–
Vocal Music	3,983	13,873	11,565	6,291
Vocal Musical	2,438	354	550	2,242
	<u>\$ 97,229</u>	<u>\$ 230,408</u>	<u>\$ 187,757</u>	<u>\$ 139,880</u>
Total	<u>\$ 97,229</u>	<u>\$ 230,408</u>	<u>\$ 187,757</u>	<u>\$ 139,880</u>

See notes to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Lakeville South High School Extracurricular Student Activity Accounts
 Statement of Cash Receipts and Disbursements
 Year Ended June 30, 2014

	Beginning Balance – June 30, 2013	Receipts	Disbursements	Ending Balance – June 30, 2014
Anime	\$ 804	\$ –	\$ –	\$ 804
Annual	27,899	9,226	13,716	23,409
Art	45	25	60	10
Band	166	940	341	765
Cheer Squad	–	753	752	1
Choir	1,118	4,410	4,559	969
Class of 2013	6,769	–	6,769	–
Class of 2014	5,523	15,580	14,273	6,830
Class of 2015	–	20,564	17,297	3,267
DECA	17,710	77,836	71,082	24,464
Diversity	–	430	418	12
Downhill Ski and Snowboard	421	535	555	401
Encore	3,315	212	1,326	2,201
Environmental	99	382	391	90
French Club	3,224	5,000	4,744	3,480
HOSA	1,385	8,109	6,767	2,727
Interest	–	289	289	–
Links	1,069	1,458	1,935	592
Math League	51	250	81	220
Mock Trial	1,649	2,056	2,159	1,546
National Honor Society	1,948	2,237	1,983	2,202
Newspaper	727	2,282	2,328	681
SADD Club	449	779	792	436
Science Olympiad	46	–	–	46
Spanish Club	7,430	7,301	7,250	7,481
Speech	5,352	862	2,469	3,745
Student Council	4,529	2,725	3,811	3,443
Theatre	13,671	26,765	19,812	20,624
Tutor	–	405	–	405
	<u>–</u>	<u>405</u>	<u>–</u>	<u>405</u>
Total	<u>\$ 105,399</u>	<u>\$ 191,411</u>	<u>\$ 185,959</u>	<u>\$ 110,851</u>

See notes to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 194

Notes to Extracurricular Student Activity Accounts Financial Statements
June 30, 2014

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 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, 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.

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. 194
Lakeville, Minnesota

In planning and performing our audit of the statements of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 194 (the District) as of and for the year ended June 30, 2014, 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 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.

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 one 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 statements 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 2014-001 to be a material weakness.

The District's responses to the findings identified in our audit have been included in the Schedule of Findings and Corrective Action. The District's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

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
November 17, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board and Management of
Independent School District No. 194
Lakeville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statements of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 194 (the District) as of and for the year ended June 30, 2014, and the related notes to the extracurricular student activity accounts financial statements, and have issued our report thereon dated November 17, 2014. 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 statements are 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. 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 responses to the legal compliance findings identified in our audit have been included in the Schedule of Findings and Corrective Action. The District's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

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
November 17, 2014

INDEPENDENT SCHOOL DISTRICT NO. 194

Extracurricular Student Activity Accounts
Schedule of Findings and Corrective Action
June 30, 2014

FINDINGS AND CORRECTIVE ACTION

2014-001 MATERIAL WEAKNESS IN INTERNAL CONTROLS – CASH RECEIPTS

Condition – Independent School District No. 194 (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 assure 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 statements 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 pre-numbered receipts, the use and reconciliation of pre-numbered 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.

2014-002 UNTIMELY DEPOSITS

Condition – We noted 2 of 50 cash receipt transactions we tested within the student activity accounts that had receipts that were not deposited on a timely basis.

Type of Finding – Current year and prior year finding.

Criteria – *Manual for Activity Fund Accounting (MAFA)*.

Recommendation – We recommend that the District assure all student activity deposits are being recorded and deposited in a timely manner.

2014-003 NEGATIVE CASH BALANCE

Condition – We noted one activity accounted for by the District as student activities during the year ended June 30, 2014 which had a negative cash balance at year-end.

Type of Finding – Current year and prior year finding.

Criteria – *MAFA*.

Recommendation – It is our recommendation that the District assure all student activity accounts have positive cash balances at the end of each school year.

INDEPENDENT SCHOOL DISTRICT NO. 194

Extracurricular Student Activity Accounts
Schedule of Findings and Corrective Action (continued)
June 30, 2014

FINDINGS AND CORRECTIVE ACTION (CONTINUED)

2014-004 INACTIVE ACCOUNTS

Condition – Certain groups and activities accounted for by the District as student activities during the year ended June 30, 2014 were inactive for the year and should be closed. We identified six inactive accounts.

Type of Finding – Current year and prior year finding.

Criteria – *MAFA*.

Recommendation – It is our recommendation that the District close all inactive accounts and transfer any residual balances to other active student activity accounts.

2014-005 IMPROPER ACCOUNTS

Condition – Certain groups and activities accounted for by the District as student activities during the year ended June 30, 2014 do not meet the definition of an extracurricular activity as defined by the standards in the *MAFA*. We identified two accounts that are improper accounts.

Type of Finding – Current year finding.

Criteria – *MAFA*.

Recommendation – It is our recommendation that the District assure all student activity accounts and related activity meet the definition of an extracurricular activity as defined by the standards of the *MAFA*.

2014-006 SEGREGATION OF DUTIES

Condition – A fundamental concept in a good system of internal control is the separation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. If the separation of duties is inadequate, there is a resulting danger that intentional fraud or unintentional errors could occur and not be detected.

Type of Finding – Current year finding.

Criteria – Management is responsible for establishing and maintaining effective internal controls.

Recommendation – We recommend that the District segregate duties as best it can within the limits of the staff available. Any modifications in internal controls in this area should be viewed from a cost/benefit perspective.

INDEPENDENT SCHOOL DISTRICT NO. 194

Extracurricular Student Activity Accounts
Schedule of Findings and Corrective Action (continued)
June 30, 2014

FINDINGS AND CORRECTIVE ACTION (CONTINUED)

2014-001, 2014-002, 2014-003, 2014-004, 2014-005, AND 2014-006 CORRECTIVE ACTION PLANS

Actions Planned – The District will work with the individuals responsible for overseeing student activities to improve controls and correct findings identified during the audit.

Official Responsible – The District’s Controller.

Planned Completion Date – June 30, 2015.

Disagreement With or Explanation of Finding – The District has no disagreement with the findings.

Plan to Monitor – The District’s Controller and staff will review the procedures and internal controls over student activity funds with the responsible individuals at each site where student activity accounts are maintained in order to comply with requirements of the *MAFA*.