

INDEPENDENT SCHOOL DISTRICT NO. 831  
FOREST LAKE, MINNESOTA

Extracurricular Student Activity Accounts  
Financial Report

Year Ended  
June 30, 2017

THIS PAGE INTENTIONALLY LEFT BLANK



**PRINCIPALS**

Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA/CMA

**INDEPENDENT AUDITOR'S REPORT**

To the School Board and Management of  
Independent School District No. 831  
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2017, 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 this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial 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 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 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, 2017, 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 13, 2017

INDEPENDENT SCHOOL DISTRICT NO. 831

Extracurricular Student Activity Accounts  
 Statement of Cash Receipts and Disbursements  
 Year Ended June 30, 2017

	Beginning Balance	Receipts and Transfers In	Disbursements and Transfers Out	Ending Balance
Senior High School	\$ 78,271	\$ 192,883	\$ 208,189	\$ 62,965
Century Junior High School	14,107	26,430	24,143	16,394
Southwest Junior High School	20,685	54,788	50,244	25,229
Area Learning Center	2,028	585	1,608	1,005
S.T.E.P.	48	210	197	61
Columbus Elementary	3,280	14,759	15,330	2,709
Forest Lake Elementary	1,952	9,883	10,729	1,106
Forest View Elementary	2,749	9,844	9,837	2,756
Lino Lakes Elementary	3,745	12,843	11,729	4,859
Linwood Elementary	4,558	14,163	13,675	5,046
Montessori Elementary	1,588	1,969	2,211	1,346
Scandia Elementary	963	11,067	10,835	1,195
Wyoming Elementary	9,400	20,295	18,782	10,913
	<u>\$ 143,374</u>	<u>\$ 369,719</u>	<u>\$ 377,509</u>	<u>\$ 135,584</u>

See notes to extracurricular student activity accounts financial statement

INDEPENDENT SCHOOL DISTRICT NO. 831

Notes to Extracurricular Student Activity Accounts Financial Statement  
June 30, 2017

**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. 831'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.

OTHER REQUIRED REPORTS

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING

To the School Board and Management of  
Independent School District No. 831  
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2017, 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 2017-001 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 13, 2017

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board and Management of  
Independent School District No. 831  
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2017, and the related notes to the extracurricular student activity accounts financial statement, and have issued our report thereon dated December 13, 2017. 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 (MAFA)*, issued by the Minnesota Department of Education, provide 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 *MAFA*, except as described in the Schedule of Findings and Corrective Action as items 2017-002 through 2017-005. 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 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 statement 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  
December 13, 2017

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT SCHOOL DISTRICT NO. 831

Extracurricular Student Activity Accounts  
Schedule of Findings and Corrective Action  
June 30, 2017

**FINDINGS AND CORRECTIVE ACTION – INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2017-001 MATERIAL WEAKNESS IN INTERNAL CONTROLS – CASH RECEIPTS**

**Condition** – Independent School District No. 831 (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 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 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 and Advisors.

**Planned Completion Date** – June 30, 2018.

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

**Plan to Monitor** – The Director of Business Services and Advisors 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. 831

Extracurricular Student Activity Accounts  
Schedule of Findings and Corrective Action (continued)  
June 30, 2017

**FINDINGS AND CORRECTIVE ACTION – COMPLIANCE**

**2017-002 IMPROPER ACCOUNTS AND ACTIVITY**

**Condition** – We noted 46 of 158 groups and activities accounted for by the District as student activities during the year ended June 30, 2017 do not meet the definition of an extracurricular activity as defined by the standards in the *Manual for Activity Fund Accounting (MAFA)*.

**Type of Finding** – Current year and prior 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*.

**2017-003 INACTIVE ACCOUNTS**

**Condition** – We noted 17 of 158 groups and activities accounted for by the District as student activities during the year ended June 30, 2017, were inactive for the year and should be closed.

**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.

**2017-004 UNTIMELY DEPOSITS**

**Condition** – We noted 1 of 41 student activity cash receipt transactions we selected for testing was not deposited in a timely manner as defined by the *MAFA*.

**Type of Finding** – Current year finding.

**Criteria** – *MAFA*.

**Recommendation** – It is our recommendation that the District review procedures for receipts and deposits as defined by the standards of the *MAFA* to allow for future compliance with timely deposit of receipts.

INDEPENDENT SCHOOL DISTRICT NO. 831

Extracurricular Student Activity Accounts  
Schedule of Findings and Corrective Action (continued)  
June 30, 2017

**FINDINGS AND CORRECTIVE ACTION – COMPLIANCE (CONTINUED)**

**2017-005 DISBURSEMENT DOCUMENTATION AND PROCEDURES**

**Condition** – We noted 2 of 43 student activity cash disbursement transactions we selected for testing lacked proper authorization and 1 of 43 cash disbursement transactions lacked proper supporting documentation.

**Type of Finding** – Current year finding.

**Criteria** – *MAFA*.

**Recommendation** – It is our recommendation that the District assure all student activity cash disbursements obtain the proper authorizations and supporting documentation.

**2017-002, 2017-003, 2017-004, AND 2017-005 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 Director of Business Services and Advisors.

**Planned Completion Date** – June 30, 2018.

**Disagreement With or Explanation of Finding** – The District is in agreement with these findings.

**Plan to Monitor** – The Director of Business Services and Advisors 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*.

THIS PAGE INTENTIONALLY LEFT BLANK