

**MEDFORD PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 763**

**EXECUTIVE AUDIT SUMMARY (EAS)**

**JUNE 30, 2016**





CliftonLarsonAllen

CliftonLarsonAllen LLP  
CLAAconnect.com

November 7, 2016

Board of Education  
Independent School District No. 763  
Medford, Minnesota

This Executive Audit Summary and Management Report presents information which we believe is important to you as members of the school board. We encourage you to review the sections of this report, the audited financial statements and the auditors' reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the District for the courtesies, cooperation and assistance extended to us during the course of our work.

CliftonLarsonAllen LLP

Kimberley Hillberg, CPA  
Principal



**MEDFORD PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 763  
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JUNE 30, 2016**

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**EXECUTIVE AUDIT SUMMARY (EAS) FOR  
MEDFORD PUBLIC SCHOOLS  
YEAR ENDED JUNE 30, 2016**

We prepared this Executive Audit Summary and Management Report in conjunction with our audit of the District's financial records for the year ended June 30, 2016.

**Audit Opinion**

The financial statements are fairly stated. We issued what is known as a "clean" audit report.

**Internal Control Over Financial Reporting**

Three deficiencies in internal control were noted. Two of these deficiencies are considered to be material weaknesses, and one is a significant deficiency. The material weaknesses relate to financial reporting and approval of nonstandard journal entries. The significant deficiency relates controls over UFARS coding.

**Yellow Book Report**

No compliance issues were noted in our review of laws, regulations, contracts and grants that could have significant financial implications to the District.

**Minnesota Legal Compliance**

Two findings relating to Minnesota Legal Compliance were noted; one for uncollateralized deposits at December 31, 2015 and June 30, 2016 and another for UFARS coding for payroll.

**Student Activity Funds**

***Audit Opinion***

The student activity financial statements are prepared on the regulatory basis prescribed or permitted by the Minnesota Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements are fairly stated, except for such adjustments, if any, as might have been determined necessary had the cash collections been susceptible to satisfactory audit tests. This is what is known as a "qualified" opinion and is expected for audits of student activity funds.

***Compliance with the Provisions of the Manual for Activity Fund Accounting***

One Minnesota Legal Compliance finding was noted. It was related to five disbursements out of 25 in our sample that did not have student approval.

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## FORMAL REQUIRED COMMUNICATIONS

Board of Education  
Independent School District No. 763  
Medford, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763 as of and for the year ended June 30, 2016, and have issued our report thereon dated November 7, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### Significant audit findings

#### ***Qualitative aspects of accounting practices***

##### Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements.

Now new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Due from Minnesota Department of Education
- Due from federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Severance payable
- Other postemployment benefits
- Net pension liability

**Significant audit findings (continued)**

***Qualitative aspects of accounting practices (continued)***

*Accounting estimates (continued)*

Management's estimate of the due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2015-2016. The most significant of these is the aid portion of general education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a statewide database, Minnesota Automated Reporting Student System (MARSS). Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2015- 2016 is not finalized until well into the next fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2015-2016. Many federal entitlements require that supporting financial reporting information be provided both in the Uniform Financial Accounting and Reporting Standards (UFARS) accounting system and also the State Educational Record View and Submission (SERVS) reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of the useful lives for depreciable capital assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable capital asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

Management's estimate of severance payable is based on certain assumptions made by the District as required by GASB #16. A liability has been recorded in the long-term liabilities for accumulated sick leave convertible to early retirement pay for which it is probable that the employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of the employees becoming eligible to receive the benefits (vesting), and the potential use of the accumulated sick leave prior to termination.

Management's estimate of other postemployment benefits is based on an actuarially determined calculation, less actual payments incurred on behalf of retirees and an actuarially determined estimate of implicit rate subsidy, which is the estimated increased cost of premiums due to inclusion of retirees in the same plan as the District's active employees.

Management's estimate of the net pension liability is based on an actuarially determined calculation of the District's proportionate share of the net pension liability of cost-sharing multiple-employer pension plans sponsored by the Teachers Retirement Association and the Public Employees Retirement Association of Minnesota, in which the District participates.

**Significant audit findings (continued)**

***Qualitative aspects of accounting practices (continued)***

***Accounting estimates (continued)***

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

***Financial Statement Disclosures***

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected Misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

***Corrected Misstatements***

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 7, 2016.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant Issues Discussed with Management Prior to Engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

**Other Information in Documents Containing Audited Financial Statements**


With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the Uniform Financial Reporting and Accounting Standards Compliance Table (the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 7, 2016.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

\* \* \*

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



**CliftonLarsonAllen LLP**

Austin, Minnesota  
November 7, 2016



Board of Education  
Independent School District No. 763  
Medford, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 763 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 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.

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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 District'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 weaknesses.

- **Controls Over Non Standard Journal Entries**

The District has a control for the review of nonstandard journal entries, which includes the review of journal entries by an individual different from the preparer. This control was not operating consistently during the year. One of five journal entries tested did not have documentation of review and approval. The potential exists that a material error could occur and not be prevented or detected by the District's internal controls. All non-standard journal entries should be reviewed and approved by an individual not making the entry.

- **Controls Over Student Activity Bank Reconciliations**

The District does not have a control in place for the review of student activity fund bank reconciliations. Review of the bank reconciliation by an individual independent of the reconciliation process provides a control to detect errors or theft of cash in a timely manner. Without such a control the potential exists that a material error or theft could occur and not be prevented or detected by the District's internal controls. All bank reconciliations should be reviewed and approved by an individual independent of the reconciliation and disbursement process.

**Material weaknesses (continued)**

- **Controls Over Student Activity Disbursement Support**

One of twenty-five disbursements tested did not have documentation to support the expenditure. All payments made by the District should be supported by documentation, such as payment requests, invoices or receipt copies. Without proper supporting documentation, the District could potentially make payment for goods or services that were not provided or pay for unallowable purchases. Supporting documentation provided should also be approved to indicate payment for the goods or services is authorized. Furthermore, supporting documentation should be retained by the District. Without such a control, the potential exists that a material error could occur and not be prevented or detected by the District's internal controls.

The following material weaknesses were identified and communicated in a prior period; remedial action has not yet been taken:

- **Oversight of the Financial Reporting Process**

The School Board and management share the ultimate responsibility for the District's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The District engages CLA to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the District's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the District has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the District's activities and operations.

The District's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the District's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

- **Student Activity Receipts**

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 revenues and receipts have been properly recorded. 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. 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.

**Significant deficiencies**

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. We consider the following deficiencies in the District's internal controls to be a significant deficiency:


- **Controls Over Proper UFARS Coding**

The District is required to comply with the Uniform Financial Accounting and Reporting System (UFARS) when coding all financial activity. One of twenty-five payroll disbursements selected for testing had an error in the UFARS coding. The potential exists that a more than inconsequential misstatement could occur in the financial statements and not be prevented or detected by the District's internal controls. We recommend payroll codes be reviewed by an individual prior to processing payroll to ensure accuracy of coding.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

\* \* \*

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
November 7, 2016

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# **APPENDIX A**

## **FINANCIAL TRENDS OF YOUR DISTRICT**

The following graphs reflect financial trends of Medford Public Schools. Information related to fund balances on pages 10 through 14 were obtained from current and prior year audit reports. Information from Medford Public Schools has been included when appropriate for comparison purposes.

The graphs on pages 15 through 21 show expenditures per student served compared to the four most recent years, state averages and the averages for comparable size school districts (students served of 500-999). Prior year expenditure data and state wide averages were obtained from the Minnesota Department of Education. Current year expenditures were obtained from the current year's audit report.

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**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GENERAL FUND  
YEAR ENDED JUNE 30, 2016**

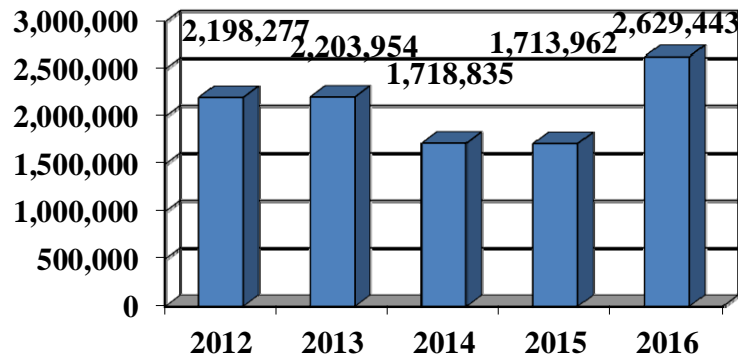
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	Unassigned	Non-Capital Restrictions & Assignments	Capital Related Restrictions				Total	General Fund Total
			Operating Capital	Health & Safety	Disabled Access	Deferred Maintenance		
Revenues	\$ 7,384,433	\$ 885,051	\$ 193,245	\$ 16,680	\$ -	\$ 21,956	\$ 231,881	\$ 8,501,365
Expenditures and Operating Transfers	6,468,952	935,881	190,469	21,778	191	17,490	229,928	\$ 7,634,761
Excess (Deficit) Revenues Over Expenditures	915,481	(50,830)	2,776	(5,098)	(191)	4,466	1,953	866,604
Fund Balance June 30, 2015	1,713,962	724,435	93,385	(1,951)	4,911	10,357	106,702	2,545,099
Fund Balance June 30, 2016	\$ 2,629,443	\$ 673,605	\$ 96,161	\$ (7,049)	\$ 4,720	\$ 14,823	\$ 108,655	\$ 3,411,703



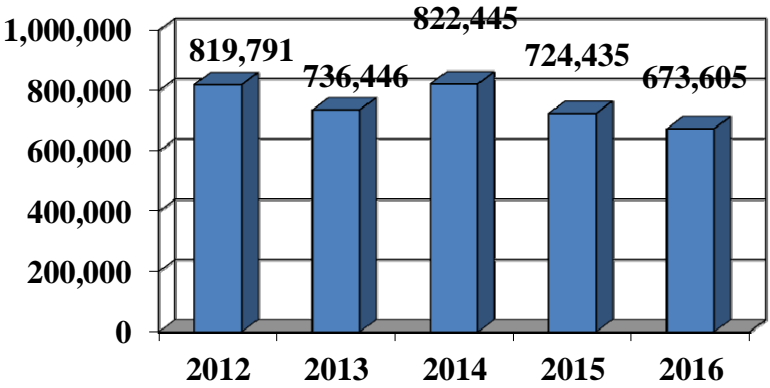
ISD NO. 763 MEDFORD  
General Fund  
Unassigned

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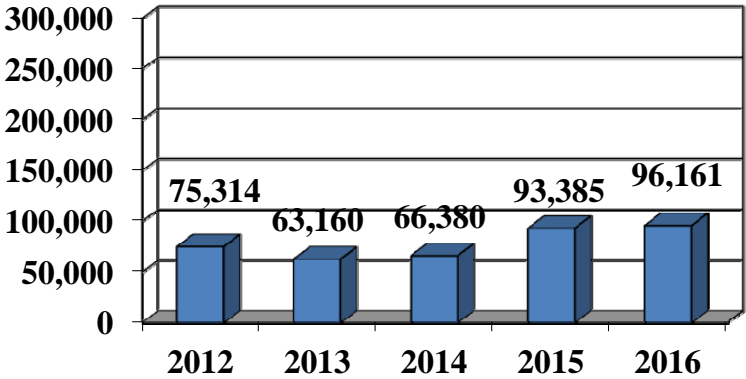
ISD NO. 763 MEDFORD  
General Fund  
Restricted and Assigned Balance (Excluding Capital Related)

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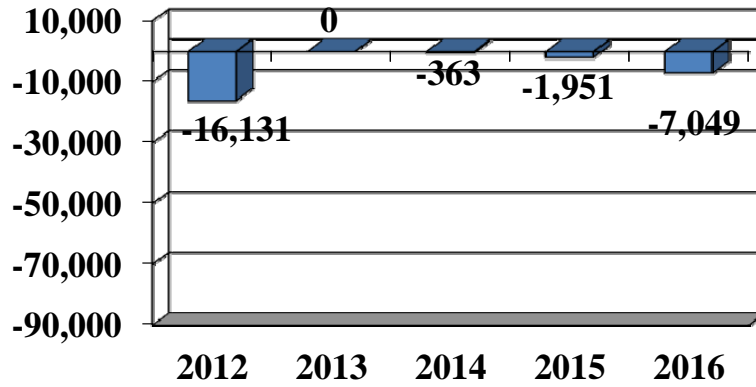
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General Fund  
Operating Capital Fund Balance

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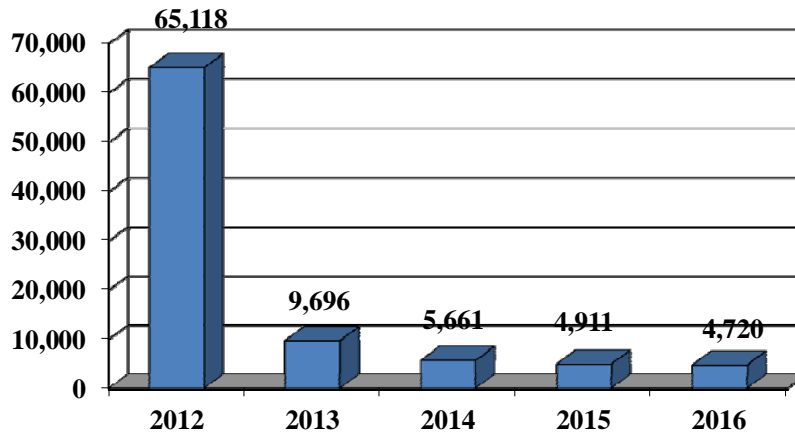
ISD NO. 763 MEDFORD  
General Fund  
Health and Safety Fund Balance

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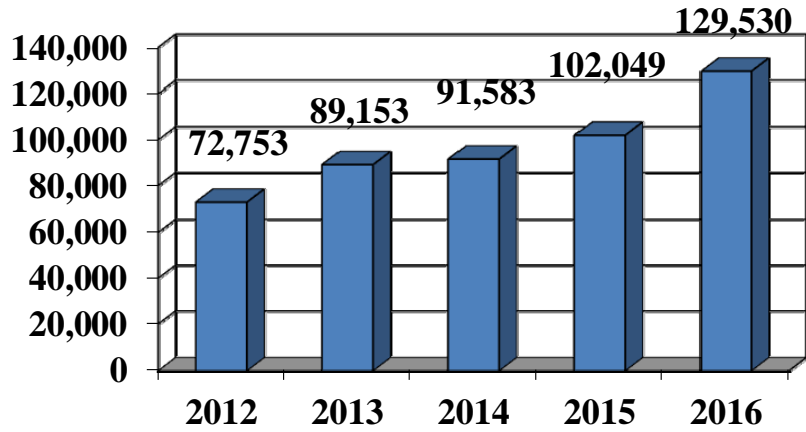
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General Fund  
Disabled Access Fund Balance

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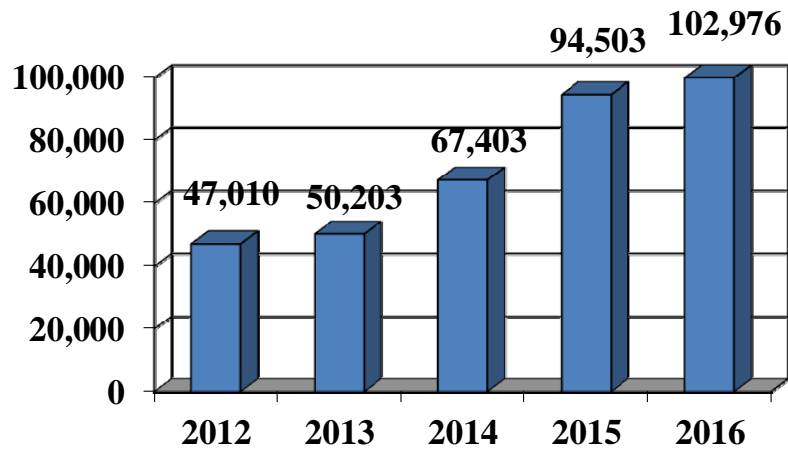
ISD NO. 763 MEDFORD  
Food Service Fund Balance

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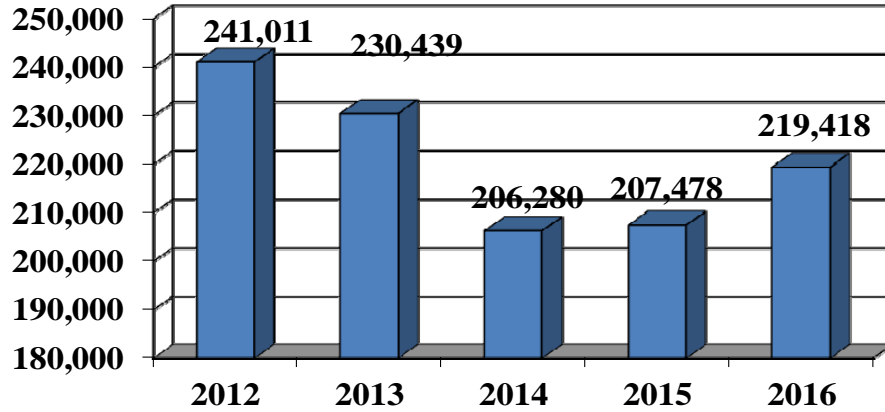
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Community Service Fund Balance

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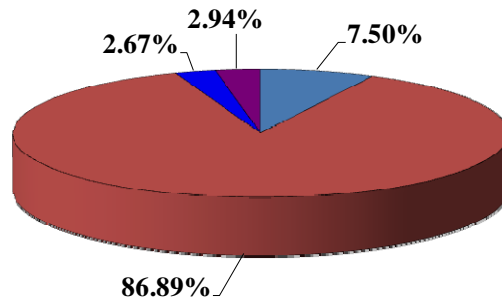
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Debt Service Fund Balance

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General Fund Revenue

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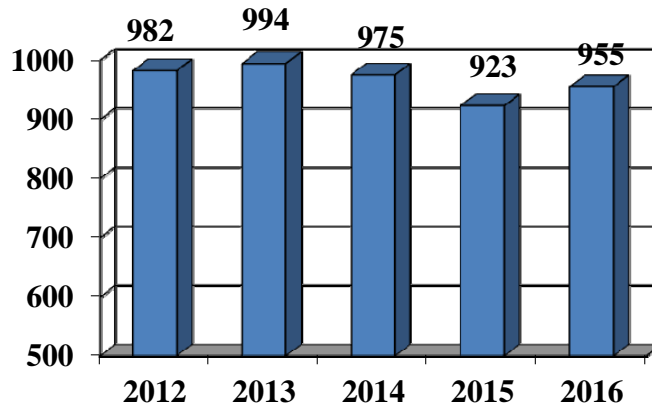


■ Local Property Taxes ■ State Sources ■ Federal Sources ■ Other



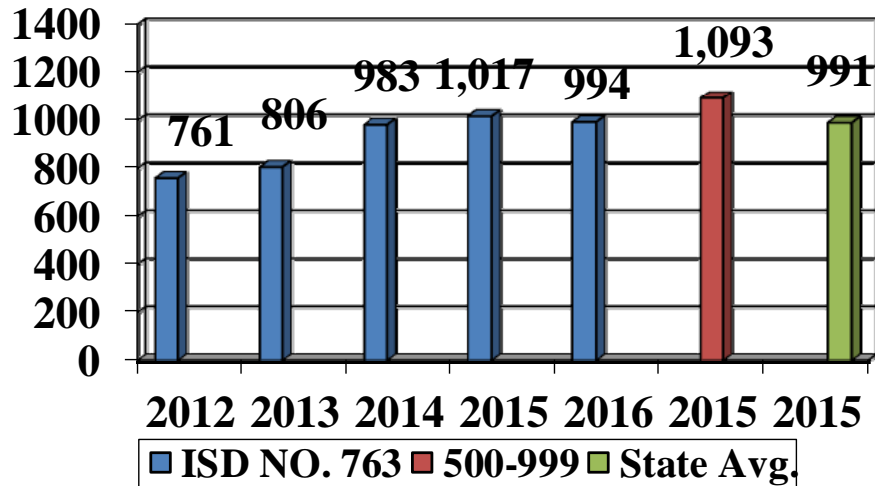
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District & School Administration

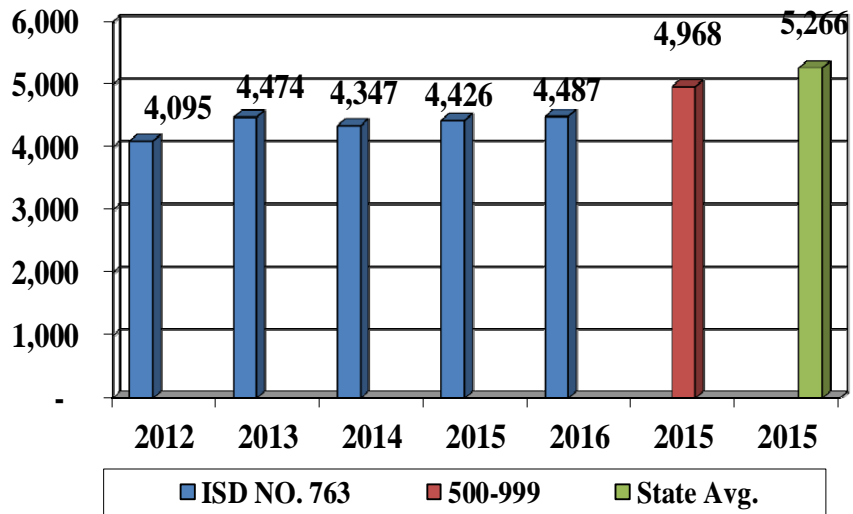
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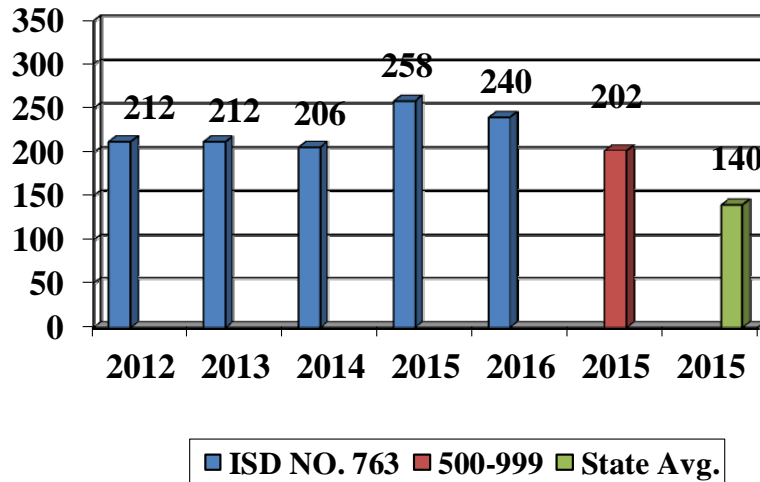
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Regular Instruction

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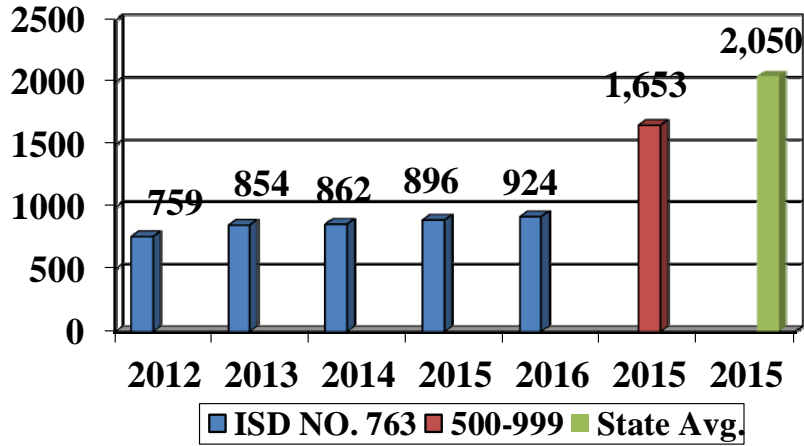
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Vocational Instruction

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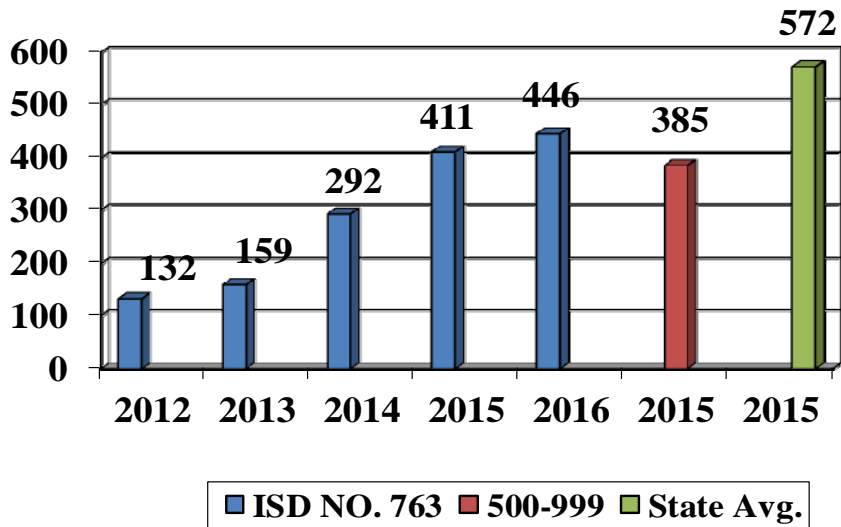
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Special Education Instruction

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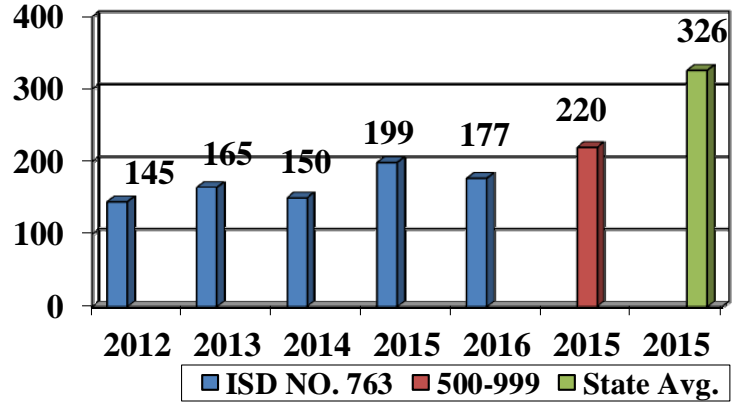
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Instructional Support Services

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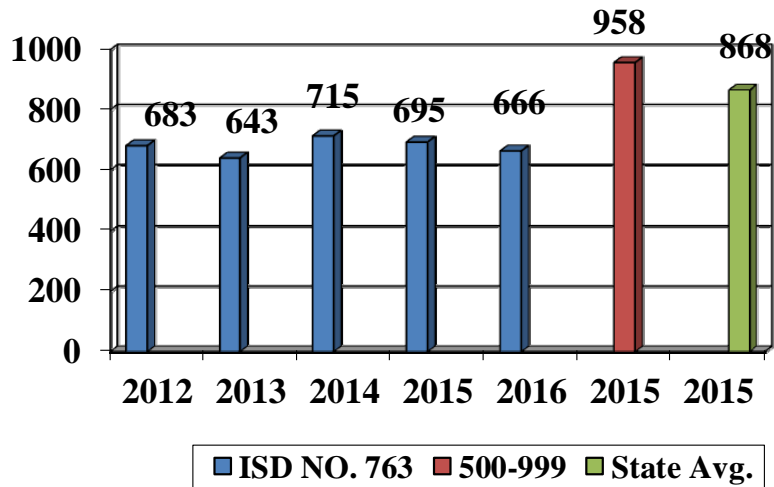
ISD NO. 763 MEDFORD  
Pupil Support Services

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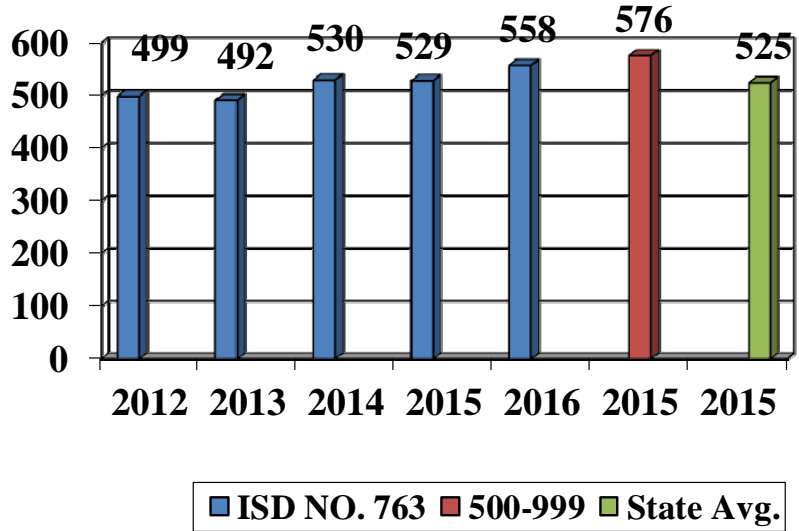
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Site, Buildings, Equipment and Other

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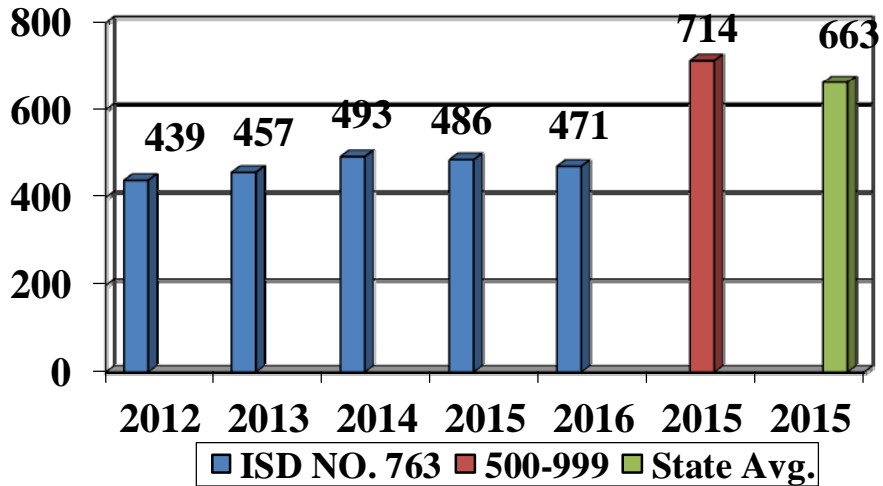
ISD NO. 763 MEDFORD  
Food Service

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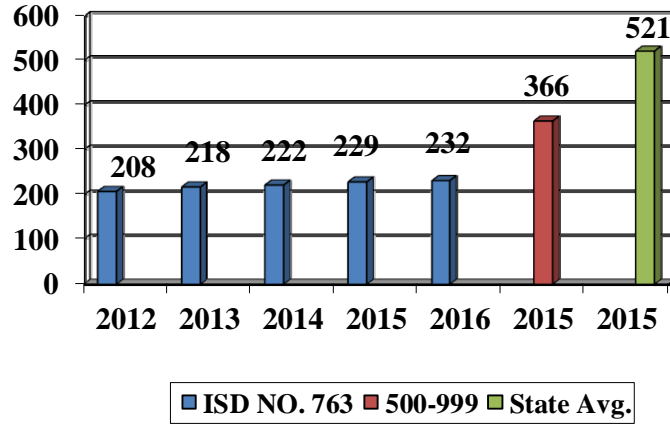
ISD NO. 763 MEDFORD  
Transportation

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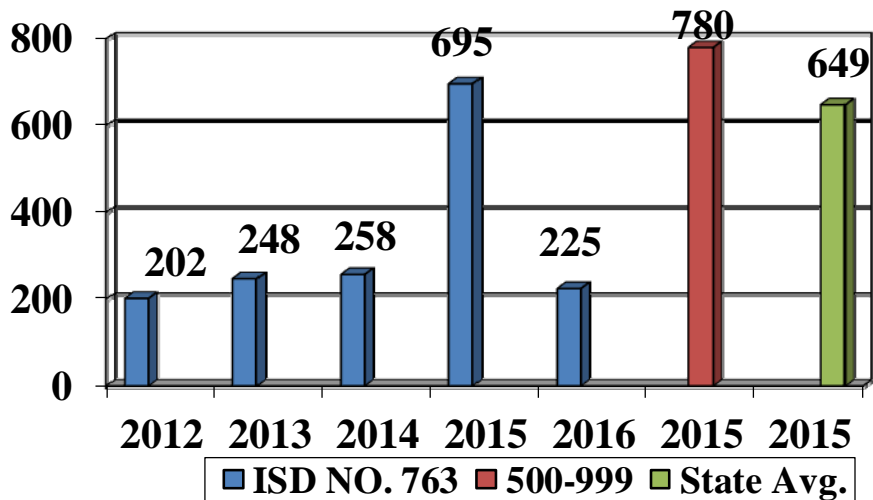
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Community Service

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Capital Expenditures

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Debt Service

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