

INDEPENDENT SCHOOL DISTRICT NO. 199
INVER GROVE HEIGHTS, MINNESOTA

Extracurricular Student Activity Accounts
Financial Statements

Year Ended
June 30, 2013

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 199
Inver Grove Heights, Minnesota

REPORT ON THE FINANCIAL STATEMENT

We have audited the accompanying statements of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2013, and the related notes to the extracurricular student activity accounts financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENT

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 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 financial statement that are free from material misstatement, whether due to error or fraud.

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 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)

OPINIONS

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to in the emphasis of matter paragraph below been susceptible to satisfactory audit tests, 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, 2013, 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.

EMPHASIS OF MATTER

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practical for us to extend our audit of such cash collections beyond the amounts recorded.

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 opinion is not modified with respect to that matter.

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

Minneapolis, Minnesota
November 21, 2013

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts
Statement of Cash Receipts and Disbursements – Simley High School
Year Ended June 30, 2013

	Balance – June 30, 2012	Receipts and Transfers In	Disbursements and Transfers Out	Balance – June 30, 2013
Band Activity	\$ 1,848	\$ 3,899	\$ 1,797	\$ 3,950
Choir – vocal	280	200	185	295
Drama	16	–	16	–
German Club	364	1,530	1,762	132
Homecoming	2,634	6,307	6,783	2,158
Letterpersons' Club	3,275	17,425	14,840	5,860
National Honor Society	3,639	2,563	2,805	3,397
Prom	1,789	11,170	11,872	1,087
Random Acts	83	1,500	1,572	11
Robotics	4,184	3,550	5,252	2,482
SADD	3,092	–	191	2,901
School Store	413	–	413	–
Spanish Club	1,115	1,948	1,559	1,504
Student Council	352	2,525	2,049	828
TEAM	1,705	150	160	1,695
Work Program	188	445	633	–
Yearbook/newspaper	14,814	12,850	22,541	5,123
	<u>\$ 39,791</u>	<u>\$ 66,062</u>	<u>\$ 74,430</u>	<u>\$ 31,423</u>

See notes to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts
Statement of Cash Receipts and Disbursements – Salem Hills Elementary School
Year Ended June 30, 2013

	Balance – June 30, 2012	Receipts and Transfers In	Disbursements and Transfers Out	Balance – June 30, 2013
Student services	\$ 214	\$ –	\$ 214	\$ –
Sunshine Club	103	–	103	–
	<u>\$ 317</u>	<u>\$ –</u>	<u>\$ 317</u>	<u>\$ –</u>

See notes to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Notes to Extracurricular Student Activity Accounts Financial Statements June 30, 2013

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. 199, Inver Grove Heights, Minnesota'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, extracurricular student activity account deposits were fully covered by federal depository insurance.

OTHER REQUIRED REPORTS

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

To the School Board and Management of
Independent School District No. 199
Inver Grove Heights, 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. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2013, 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Corrective Action as items 2013-001 and 2013-002 to be material weaknesses.

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 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
November 21, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board and Management of
Independent School District No. 199
Inver Grove Heights, 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. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2013, and the related notes to the extracurricular student activity accounts financial statements, and have issued our report thereon dated November 21, 2013. 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 as items 2013-003 and 2013-004. 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 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
November 21, 2013

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts
Schedule of Findings and Corrective Action
June 30, 2013

FINDINGS AND CORRECTIVE ACTION

2013-001 MATERIAL WEAKNESS IN INTERNAL CONTROLS – CASH RECEIPTS

Condition – Independent School District No. 199, Inver Grove Heights, Minnesota (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.

2013-002 MATERIAL WEAKNESS IN INTERNAL CONTROLS – SEGREGATION OF DUTIES

Condition – The District does not have adequate segregation of duties over the processing and reporting of its extracurricular student activity account transactions, such that no individual has the authority to approve or execute a transaction, has physical access to the related assets, and has the responsibility to record the transaction in the District's accounting records.

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, whether through error or fraud, 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 segregation of duties of student activity account transactions. 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.

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts
Schedule of Findings and Corrective Action (continued)
June 30, 2013

FINDINGS AND CORRECTIVE ACTION (CONTINUED)

2013-003 STUDENT ACTIVITY RECEIPTS

Condition – Two of ten cash receipts tested were not deposited in a timely manner.

Type of Finding – Current year and prior year finding.

Criteria – *Manual for Activity Fund Accounting*.

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

2013-004 IMPROPER DISBURSEMENT

Condition – One of fifteen disbursements selected for testing was for the payment of wages or contracted labor services, which is not an allowable disbursement for an extracurricular student activity account. Whether there is an explicit contract or an implicit contract, all payments for labor require school board approval.

Type of Finding – Current year finding

Criteria – *Manual for Activity Fund Accounting*.

Recommendation – We recommend that the District continue to review the propriety of all student activity account disbursements to assure they are allowable under the criteria set forth in the *Manual for Activity Fund Accounting*.

2013-001, 2013-002, 2013-003, AND 2013-004 CORRECTIVE ACTION PLANS

Actions Planned – The District's Business Services Department regularly reviews internal controls over extracurricular student activity account transactions along with the personnel at the school sites that maintain such accounts. The District has also engaged its external audit firm to provide further evaluation and recommendations for the improvement of its internal controls over cash receipts, including student activity account receipts. The District will evaluate whether implementing additional control procedures over the recording of cash receipts or to further segregate duties is cost beneficial and practical within the limitations of the staffing available at the school sites. The importance of depositing cash receipts in a timely manner and assuring all disbursements are allowable under the *Manual for Activity Fund Accounting* will be stressed to the individuals processing these transactions.

Official Responsible – Director of Business Services.

Planned Completion Date – June 30, 2014.

Disagreement With or Explanation of Finding – The District agrees with these findings.

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