

INDEPENDENT SCHOOL DISTRICT NO. 273
EDINA, MINNESOTA

Extracurricular Student Activity Accounts
Financial Report

Year Ended
June 30, 2019

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PRINCIPALS

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INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

REPORT ON THE FINANCIAL STATEMENT

We have audited the accompanying financial statement of Independent School District No. 273, Edina, Minnesota (the District), which comprises the statement of cash receipts and disbursements of the extracurricular student activity accounts as of and for the year ended June 30, 2019, and the related notes to the extracurricular student activity accounts financial statement.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The District's extracurricular student activities management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Minnesota Department of Education (MDE), as described in Note 1 of the notes to extracurricular student activity accounts financial statement; this includes determining that the regulatory 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 the 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 from 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 opinions.

(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, 2019, and the cash receipts and disbursements for the year then ended, in accordance with the financial reporting provisions of the MDE described in Note 1 of the notes to extracurricular student activity accounts financial statement.

EMPHASIS OF MATTER

As described in Note 3 of the notes to extracurricular student activity accounts financial statement, the District is required to implement Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, during the year ending June 30, 2020. The implementation of this standard will require the District’s extracurricular student activity accounts to be operated under School Board control. As a result, the account balances and transactions included in this financial statement must instead be reported within the District’s financial statements going forward. Our opinion is not modified with respect to this matter.

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 basis of the financial reporting provisions of the MDE, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the MDE. Our opinion is not modified with respect to this matter.

RESTRICTION ON USE

This report is intended solely for the information and use of those charged with governance, management of the District, the MDE, 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 13, 2019

INDEPENDENT SCHOOL DISTRICT NO. 273

Summary of Extracurricular Student Activity Accounts
 Statement of Cash Receipts and Disbursements
 Year Ended June 30, 2019

	<u>Balance – June 30, 2018</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance – June 30, 2019</u>
Edina High School	\$ 18,191	\$ 5,077	\$ 7,842	\$ 15,426
Valley View Middle School	9,769	11,420	11,591	9,598
	<u>\$ 27,960</u>	<u>\$ 16,497</u>	<u>\$ 19,433</u>	<u>\$ 25,024</u>

See notes to extracurricular student activity accounts financial statement

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INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Extracurricular Student Activity Accounts Financial Statement
June 30, 2019

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. These funds are not included in the basic financial statements of Independent School District No. 273, Edina, Minnesota (the District), and are intended for student activity uses, as established.

The accounts of the District's extracurricular student activity accounts are maintained, and the accompanying financial statement has been prepared, in accordance with financial reporting provisions of the Minnesota Department of Education (MDE), which constitutes a regulatory basis of accounting that differs from accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, 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 deposit insurance, surety bonds, or by collateral held by the District's agent in the District's name.

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Extracurricular Student Activity Accounts Financial Statement (continued)
June 30, 2019

NOTE 3 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, *Fiduciary Activities*, is intended to enhance consistency and comparability of fiduciary activity reporting by state and local governments. It is also meant to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries.

This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The MDE has also issued guidance for implementing this standard, which will impact the reporting of extracurricular student activity accounts previously not under School Board control, beginning in the 2019–2020 fiscal year. This new guidance provided by the MDE will require the activities currently presented separately in this financial statement to be operated under School Board control and reported as part of the District’s General Fund for the year ending June 30, 2020.

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. 273
Edina, 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. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2019, 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 2019-001 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, the Minnesota Department of Education, 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 13, 2019

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board and Management of
Independent School District No. 273
Edina, 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. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2019, and the related notes to the extracurricular student activity accounts financial statement, and have issued our report thereon dated November 13, 2019. The financial statement is prepared in a manner that demonstrates compliance with the regulatory basis of accounting prescribed by the Minnesota Department of Education (MDE), which differs from accounting principles generally accepted in the United States of America. Our report on the regulatory basis of accounting is 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.

The provisions of the *Manual for Activity Fund Accounting* (MAFA), issued by the MDE, 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 MAFA, except as described in the Schedule of Findings and Corrective Action as item 2019-002. 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 response to the legal compliance 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, the MDE, 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 13, 2019

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INDEPENDENT SCHOOL DISTRICT NO. 273

Extracurricular Student Activity Accounts
Schedule of Findings and Corrective Action
June 30, 2019

FINDINGS AND CORRECTIVE ACTION

2019-001 MATERIAL WEAKNESS IN INTERNAL CONTROLS – CASH RECEIPTS

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 Independent School District No. 273, Edina, Minnesota’s (the District) financial statement will not be prevented, or detected and corrected, on a timely basis.

Condition – The District reports the cash receipts and disbursements of its extracurricular student activity accounts on the cash basis. The internal controls at the District’s school sites are not sufficient to assure that all cash receipts have been recorded.

Type of Finding – Current year and prior year finding.

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.

2019-002 UNTIMELY DEPOSITS

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

Condition – We noted one of five student activity receipts selected for testing was not deposited in a timely manner as defined by the MAFA, which specifies that receipts must be deposited within seven days of when the funds were received.

Type of Finding – Current year finding.

Recommendation – It is our recommendation that the District assure all student activity deposits are being deposited in a timely manner as defined by the MAFA.

INDEPENDENT SCHOOL DISTRICT NO. 273

Extracurricular Student Activity Accounts
Schedule of Findings and Corrective Action (continued)
June 30, 2019

2019-001 AND 2019-002 CORRECTIVE ACTION PLANS

Actions Planned – The District’s finance department will review the requirements for the processing of student activity receipts per the MAFA with individuals responsible for overseeing student activity accounts and will continue to monitor these transactions to assure all student activity receipts are deposited in a timely manner. The District will be implementing these changes to be consistent and compliant with other General Fund receipts with the required transition to account for student activities within the General Fund for the year ending June 30, 2020.

Official Responsible – The District’s Controller.

Planned Completion Date – June 30, 2020.

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

Plan to Monitor – The District’s Controller will assure that the responsible individuals are aware of the requirements for student activity receipts per the MAFA noted in the findings on the previous page, and will direct the District’s business office staff to monitor student activity receipts to assure future compliance with these requirements.