CliftonLarsonAllen LLP
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November 11, 2013

School Board
Independent School District No. 719
Prior Lake-Savage Area Schools
Prior Lake, 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 auditor's 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 School for the courtesies, cooperation and assistance extended to us during the course of our work.

CliftonLarsonAllen LLP

Dennis Hoogeveen

Dennis Hoogeveen, CPA
Principal

PRIOR LAKE-SAVAGE AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 719

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2013

PRIOR LAKE-SAVAGE AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 719
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JUNE 30, 2013

EXECUTIVE AUDIT SUMMARY (EAS)
FOR
PRIOR LAKE-SAVAGE AREA SCHOOLS
YEAR ENDED JUNE 30, 2013

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, 2013.

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

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

Internal Controls – We noted one control deficiency in internal controls which considered a "material weaknesses".

Single Audit –The District complied with requirements of major federal programs (Special Education Cluster).

Legal Compliance – No compliance issues were noted with respect to Minnesota Statutes.

Enrollment – For fiscal 2012-2013 Prior Lake-Savage Area Schools served an estimated total adjusted average daily membership of 7,214.05 (or 8,361.19 adjusted pupil units). For fiscal 2011-2012, Prior Lake-Savage Area Schools had an estimated total adjusted average daily membership of 7,115.57 (or 8,263.64 adjusted pupil units).

Fund Balance – The School's General Fund unassigned fund balance for UFARS reporting purposes increased by $514,438 during fiscal year 2013, increasing from $4,125,330 to $4,639,768. Total fund balance of the General Fund increased by $1,446,992, ending at $12,816,680 as of June 30, 2013. The total ending unassigned fund balance represents 7.0% of General Fund expenditures. A District's fund balance is an important aspect in considering the School's financial well being since a healthy fund balance represents things such as cash flow, as a cushion against unanticipated expenditures, enrollment changes, funding deficiencies and aid prorations at the state level and similar problems. The District has done a commendable job of financial planning and reacting to enrollment changes and limited new state funding.

Budget to Actual – Total revenues on a net basis in the General Fund were $1,235,771 (or 1.9%) higher than the budgeted amount while total expenditures were $815,202 (or 1.2%) lower than had been budgeted. The net effect was an increase in total fund balance that was $2,050,972 more than had been reflected in the District's budget. The majority of the expenditure budget variance relates to savings on salaries and benefits as well as unexpended amounts that are subject to site carryover.

Credit Card Fees – We noted that credit card fees for transactions in the Community Service Fund are netted with revenue instead of being recorded separately as an expenditure. Although these fees are not material to the overall financial statements, we recommend the District record these credit cards revenues and fees at gross rather than net.

I. FINANCIAL RESULTS

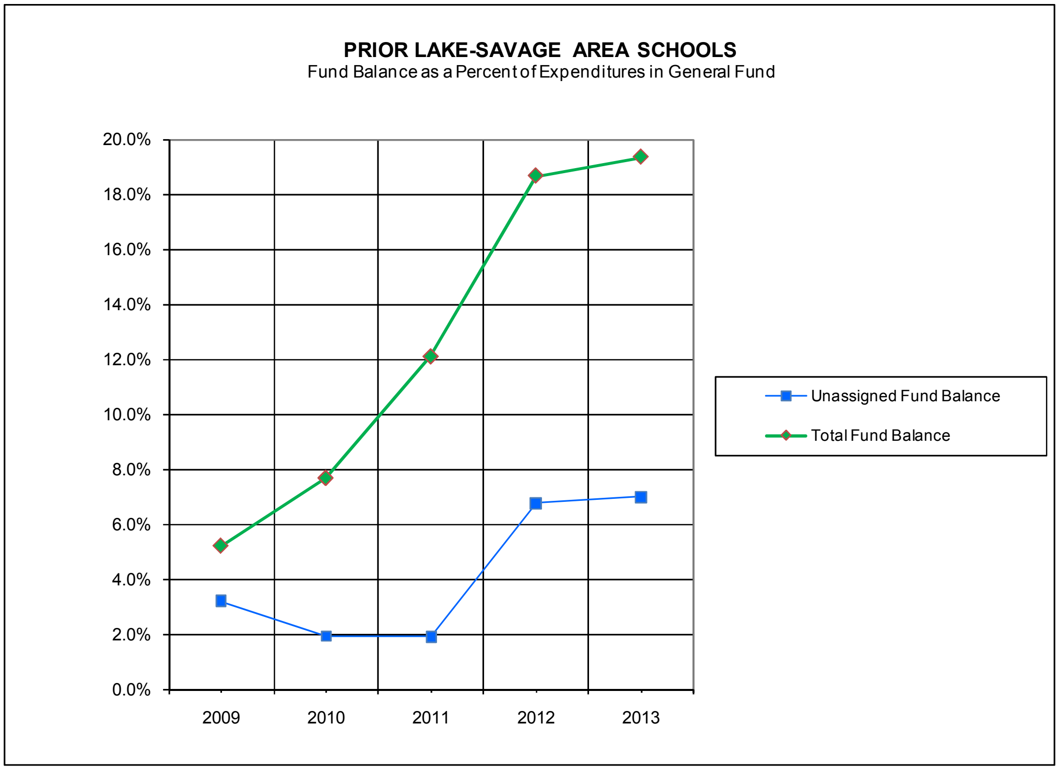
PRIOR LAKE-SAVAGE AREA SCHOOLS

AUDITED FUND BALANCES THROUGH JUNE 30, 2013

FUND DESCRIPTION	6/30/12 AUDITED BALANCE	2012-13 AUDITED REVENUES	2012-13 AUDITED EXPENDITURES	TRANSFERS OUT OF FUNDS	6/30/13 AUDITED BALANCE
GENERAL FUND					
A. UNASSIGNED - OPERATING	$4,125,330	$60,612,953	$59,377,362	($721,153)	$4,639,768
As a percentage of current year exp	6.8%				7.0%
B. NONSPENDABLE FOR					
PREPAIDS	$126,268	$117,215	$0		$243,483
INVENTORY	$217,000	$0	$6,044		$210,956
TOTAL NONSPENDABLE	$343,268	$117,215	$6,044	$0	$454,439
C. ASSIGNED FOR					
SPECIAL EDUCATION STIMULUS	$733,010	$0	$200,000		$533,010
REDTAIL RIDGE	$107,380	$0	$7,380		$100,000
CASHFLOW	$2,000,000	$0	$0		$2,000,000
CLASS-SIZE REDUCTION	$500,000	$0	$0		$500,000
TWO-YEAR PROGRAM ADDITIONS	$0	$150,000	$0		$150,000
INNOVATION DOLLARS	$500,000	$0	$0		$500,000
Q-COMP	$0	$650,000	$0		$650,000
SITE CARRYOVER	$640,835	$0	$215,752		$425,083
TOTAL ASSIGNED	$4,481,225	$800,000	$423,132	$0	$4,858,093
D. RESTRICTED FOR					
STAFF DEVELOPMENT	$88,098	$495,472	$528,225	$0	$55,345
DEFERRED MAINTENANCE	$261,110	$318,512	$383,582	$0	$196,040
AREA LEARNING CENTER	$0	$350,996	$749,267	$398,271	$0
OPERATING CAPITAL	$2,223,913	$1,767,283	$1,530,759	$0	$2,460,437
HEALTH & SAFETY	($218,502)	$571,793	$311,466	$0	$41,825
LEARNING AND DEVELOPMENT	$0	$1,576,345	$1,576,345	$0	$0
GIFTED AND TALENTED	$0	$101,100	$124,353	$23,253	$0
BASIC SKILLS	$0	$646,536	$646,536	$0	$0
CAREER AND TECHNICAL	$0	$116,650	$416,279	$299,629	$0
SAFE SCHOOLS	$65,246	$234,932	$189,445	$0	$110,733
TOTAL RESTRICTED	$2,419,865	$6,179,619	$6,456,257	$721,153	$2,864,380
BUDGET		$66,474,017	$67,077,997	$0	$10,765,708
TOTAL GENERAL FUND	**$11,369,688**	**$67,709,787**	**$66,262,795**	**$0**	**$12,816,680**
DIFFERENCE		$1,235,770	($815,202)	$0	$2,050,972
% VARIANCE		1.86%	-1.22%		
FOOD SERVICE					
NONSPENDABLE FOR INVENTORY	$49,497	$0	$16,706		$32,791
NONSPENDABLE FOR PREPAID ITEMS	$750	$0	$575		$175
RESTRICTED FOR FOOD SERVICE PRO	$355,298	$3,494,798	$3,401,024		$449,072
BUDGET		$3,363,600	$3,372,795		$396,350
FOOD SERVICE	**$405,545**	**$3,494,798**	**$3,418,305**	**$0**	**$482,038**
DIFFERENCE		$131,198	$45,510		$85,688
% VARIANCE		3.90%	1.35%		
COMMUNITY EDUCATION					
NONSPENDABLE FOR PREPAID ITEMS	$3,433	$549	$0	$0	$3,982
A. RESTRICTED FOR					
COMMUNITY EDUCATION PROGRAMS	$1,075,740	$4,121,137	$4,041,257	$0	$1,155,620
ECFE PROGRAMS	$126,578	$433,174	$531,888		$27,864
SCHOOL READINESS	$124,160	$327,999	$420,121		$32,038
OTHER PURPOSES	$14,827	$135,981	$121,484		$29,324
BUDGET		$4,985,096	$5,475,150	$0	$854,684
TOTAL COMMUNITY EDUCATION	**$1,344,738**	**$5,018,840**	**$5,114,750**	**$0**	**$1,248,828**
DIFFERENCE		$33,744	($360,400)		$394,144
% VARIANCE		0.68%	-6.58%		
BUDGET		$18,127,109	$2,296,338	($400,877)	$15,647,773
TOTAL BUILDING FUND	**$217,879**	**$18,214,356**	**$2,511,074**	**($400,877)**	**$15,520,284**
DIFFERENCE		$87,247	$214,736	$0	($127,489)
DEBT SERVICE					
OPERATING	$2,711,131	$12,381,655	$12,315,586	$400,877	$3,178,077
REFUNDING BONDS	$20,191,934	$0	$20,191,934	$0	$0
BUDGET		$16,318,426	$32,800,741	$0	$6,420,750
TOTAL DEBT SERVICE	**$22,903,065**	**$12,381,655**	**$32,507,520**	**$400,877**	**$3,178,077**
DIFFERENCE		($3,936,771)	($293,221)	$400,877	($3,242,673)
% VARIANCE		-24.12%	-0.89%		
PROPRIETARY FUNDS					
OPEB REVOCABLE TRUST	$3,015,765	$1,199,453	$496,406	$0	$3,718,812
SELF-INSURANCE ACCOUNTS	$1,251,662	$8,940,532	$8,707,981	$0	$1,484,213
TOTAL PROPRIETARY	**$4,267,427**	**$10,139,985**	**$9,204,387**	**$0**	**$5,203,025**
TOTAL	**$40,508,342**	**$116,959,421**	**$119,018,831**	**$0**	**$38,448,932**

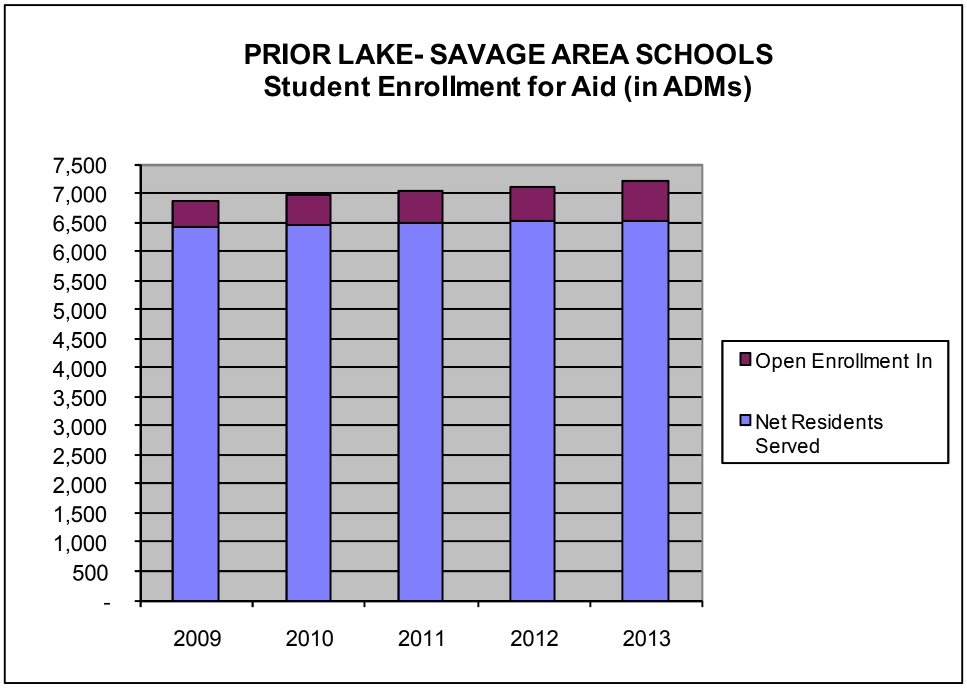
Fund Balances of the General Fund

Unless otherwise noted, all graphs and charts reflect the combined activity of the District's General Fund.



Students Served for Aid

	2009	2010	2011	2012	2013
Total Residents	6,930.64	7,030.05	7,101.40	7,208.59	7,285.27
Open Enrollment Out*	(525.83)	(582.40)	(621.98)	(705.71)	(755.61)
Net Residents Served	6,404.81	6,447.65	6,479.42	6,502.88	6,529.66
Open Enrollment In	471.53	528.20	542.73	612.69	684.39
Net ADM Served	6,876.34	6,975.85	7,022.15	7,115.57	7,214.05
* including charter schools					
Net Pupil Units Served	7,931.30	8,064.81	8,150.46	8,263.64	8,361.19



As reflected in the above chart and graph, the net impact of open enrollment in the District has been fairly consistent in recent years.

II. OTHER KEY TOPICS

GASB Reporting Model

Statement of Net Position

The Statement of Net Position essentially tells you what your District owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represent the resources the District has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, the statement divides the net position into three components: net investment in capital assets, restricted net assets, and unrestricted net position. The following table presents components of the District's net position at year-end, along with a simplified reconciliation of the difference between the governmental fund balances and total net position:

	As of June 30,	
	2013	2012
Total Fund Balance for Governmental Funds	$ 33,245,907	$ 36,240,915
Capital Assets, Less Accumulated Depreciation	145,765,067	146,135,051
Long-Term Liabilities	(135,977,647)	(143,959,302)
Other - Net	3,807,633	2,195,584
Total Net Position - Governmental Activities	$ 46,840,960	$ 40,612,248
Net Assets:		
Net Investment in Capital Assets	$ 28,232,974	$ 25,168,372
Restricted	5,836,474	4,259,070
Unrestricted	12,771,512	11,184,806
Total Net Position - Governmental Activities	$ 46,840,960	$ 40,612,248

Most of the District's fund balances translate into restricted net position by virtue of external restrictions (statutory reserves) or by the nature of the fund they are in (e.g. unrestricted food service fund balance can only be spent for food service program costs). The unrestricted net position category consists mainly of the General Fund unreserved fund balances, offset against non-capital long-term obligations such as vacation or severance payable. Consequently, many Minnesota school districts have accumulated deficits in this component of net position.

Statement of Activities

The Statement of Activities tracks the District's yearly revenues and expenses, as well as any other transactions that increase or reduce total net assets. These amounts represent the full cost of providing education. This statement provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses. The following table presents a simplified reconciliation of the change in the District's governmental fund balances to the change in total net position for fiscal years 2013 and 2012:

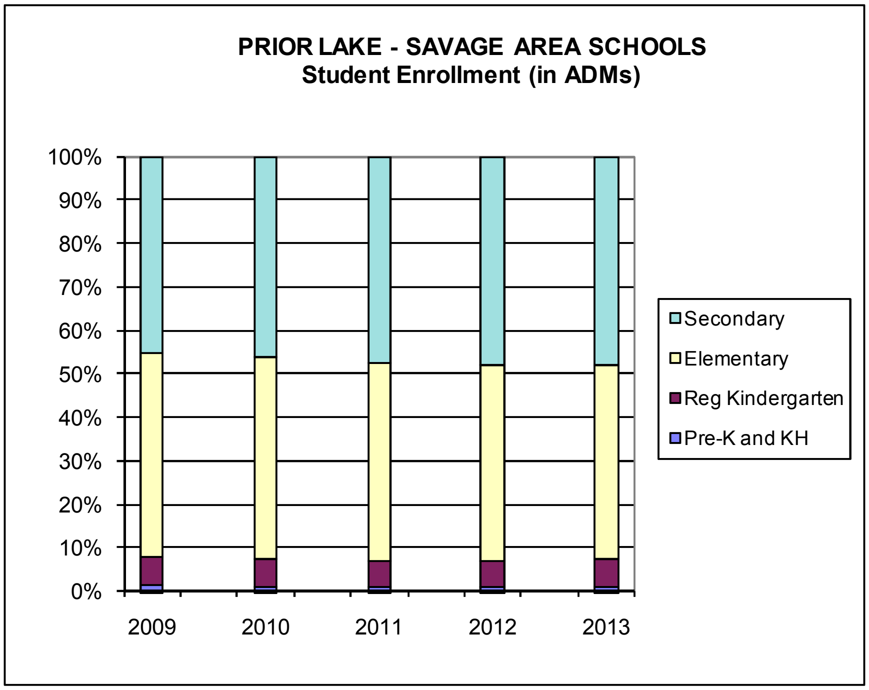
	Year Ended June 30, 2013	Year Ended June 30, 2012
Net Change in Fund Balance-Total Governmental Funds	$ (2,995,008)	$ (245,383)
Capital Asset Purchases	3,803,940	1,057,008
Depreciation	(4,173,924)	(4,119,333)
Debt Proceeds	(17,880,000)	(12,225,000)
Repayment of Debt	26,740,000	22,855,000
Other Postemployment Benefits	(90,583)	(227,194)
Other - Net	824,287	1,255,530
Change in Net Position - Governmental Activities	$ 6,228,712	$ 8,350,628

APPENDIX A

FINANCIAL TRENDS OF YOUR DISTRICT

Within this report there are a number of areas where condensed financial statement data has been presented. The last page of this document (Appendix E) contains an Independent Auditor's Report on Condensed Financial Statements Included Herein that should be considered when reading such condensed information.

Student Enrollment

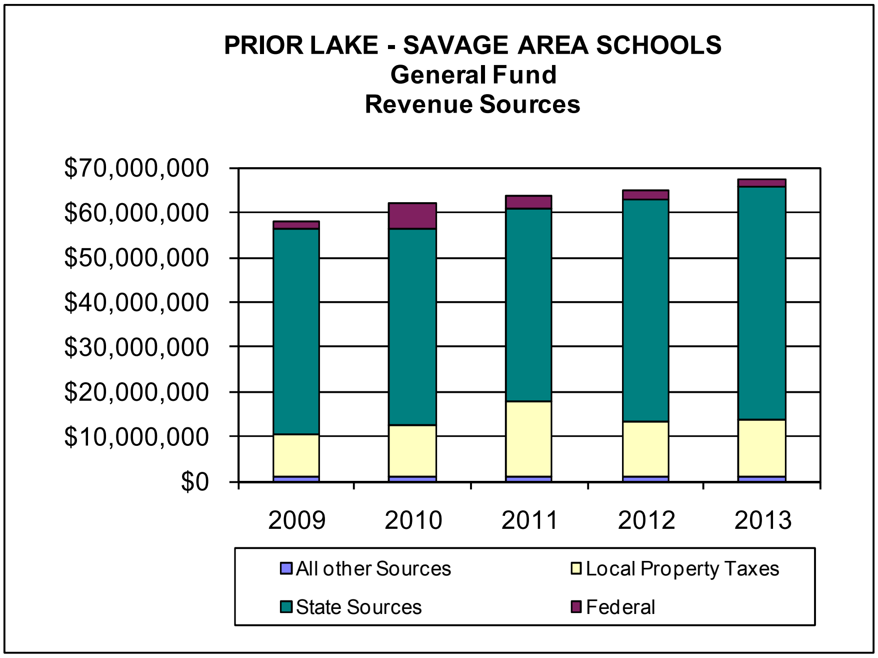


	2009	2010	2011	2012	2013
Pre-K and KH	81.59	71.31	67.25	60.59	71.79
Reg Kindergarten	452.00	437.90	418.41	422.40	468.28
Elementary	3,223.81	3,248.92	3,195.36	3,223.68	3,203.45
Secondary	3,118.94	3,217.72	3,341.13	3,408.90	3,470.53
Net ADM Served	6,876.34	6,975.85	7,022.15	7,115.57	7,214.05
Percent Change	0.84%	1.45%	0.66%	1.33%	1.38%

As noted in the above chart, the District's student count for fiscal 2012-2013 was 7,214 students (or 1.38%) higher than the prior year.

General Fund Revenue

The following table and graph summarizes the District's General Fund revenue sources for the last five years:



The table below illustrates the fluctuation that occurs between the taxes and state aid categories based on legislative activity. The Legislature determines what portion of the general education funding formula will be paid by local taxpayers. In addition, when the tax shift percentage changes or the state provides property tax relief, this only impacts the mix between state aids and taxes and does not change total revenue. For example, in fiscal 2011, the MDE shifted a total of approximately $5.0 million of the payable 2011 property tax receipts for the General and Community Service Funds, allowing such amounts to be recognized as taxes in fiscal 2011 rather than fiscal 2012, and giving the appearance of a significant increase in taxes for 2011. For this and other reasons, school finance in Minnesota continues to be a very difficult subject to explain to the general public.

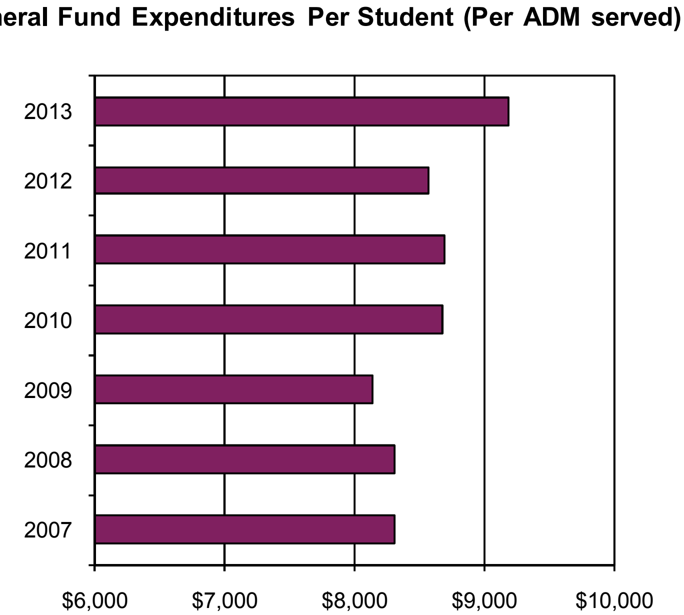
	2009	2010	2011	2012	2013
Local Property Taxes	$ 9,481,278	$ 11,541,847	$ 16,845,508	$ 12,257,658	$ 12,525,925
State Sources	45,864,786	43,572,121	43,122,773	49,714,235	51,928,530
Federal Sources	1,369,312	6,012,928	2,800,308	1,946,676	1,625,944
All Other Sources	1,108,958	1,083,934	959,938	1,006,845	1,082,083
Total Revenues	$ 57,824,334	$ 62,210,830	$ 63,728,527	$ 64,925,414	$ 67,162,482

	2009	2010	2011	2012	2013
Local Property Taxes	17%	18%	26%	19%	19%
State Sources	79%	70%	68%	76%	77%
Federal Sources	2%	10%	4%	3%	2%
All Other Sources	2%	2%	2%	2%	2%
Total Revenues	100%	100%	100%	100%	100%

* The large increase in taxes in 2011 compared to 2010 is not due to a large levy increase, but rather relates primarily to the tax shift whereby the State withholds state aid payments but instructs school districts to advance recognize tax revenue to offset the aid withheld. In 2011, the District advance recognized $4,695,754 of tax revenue in the General Fund due to the tax shift prescribed by the State of Minnesota. A corresponding state aid revenue reduction was recognized, resulting in the change in percentage of revenue. Without this advance recognition, tax revenue would have been $12,149,754, much more comparable to the prior year and representing 19.1% of total revenue.

Expenditures Per Student

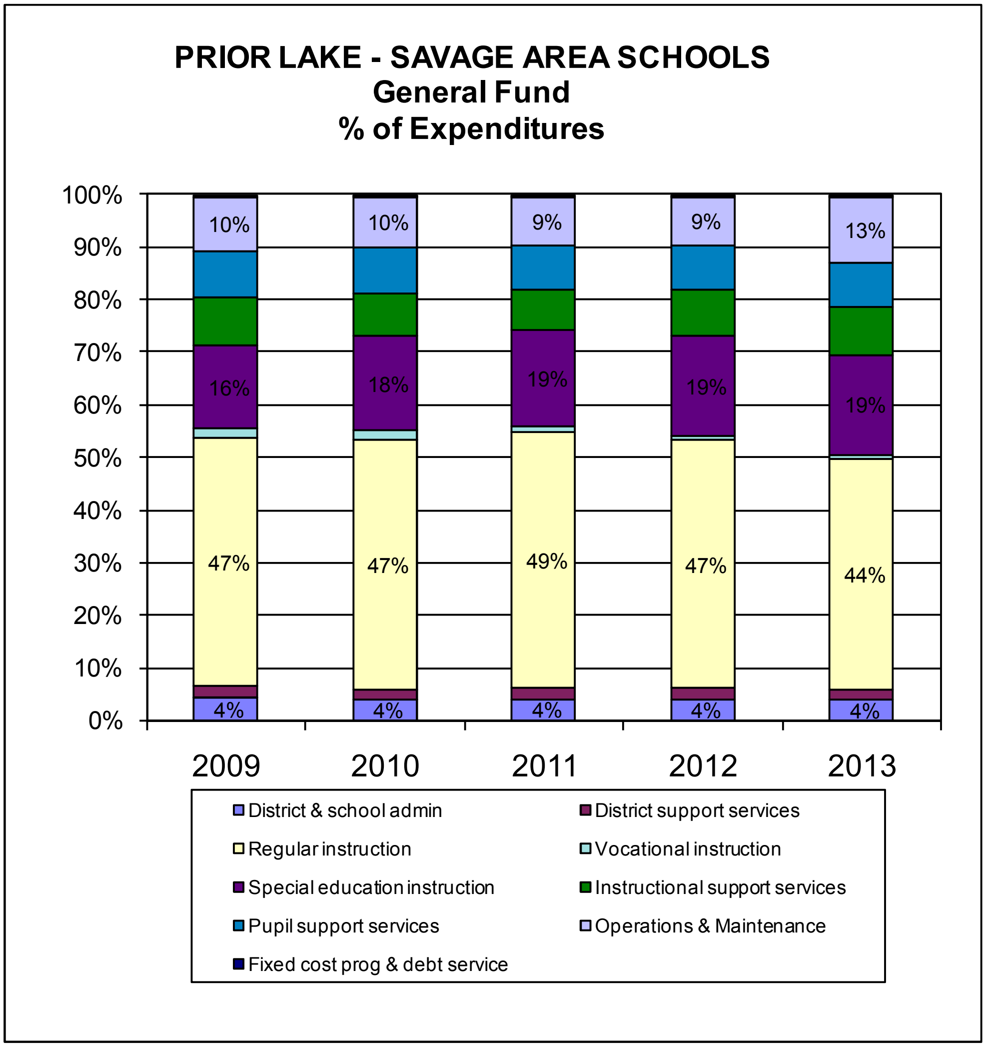
Expenditures per student (average daily membership) are summarized in the following graph:



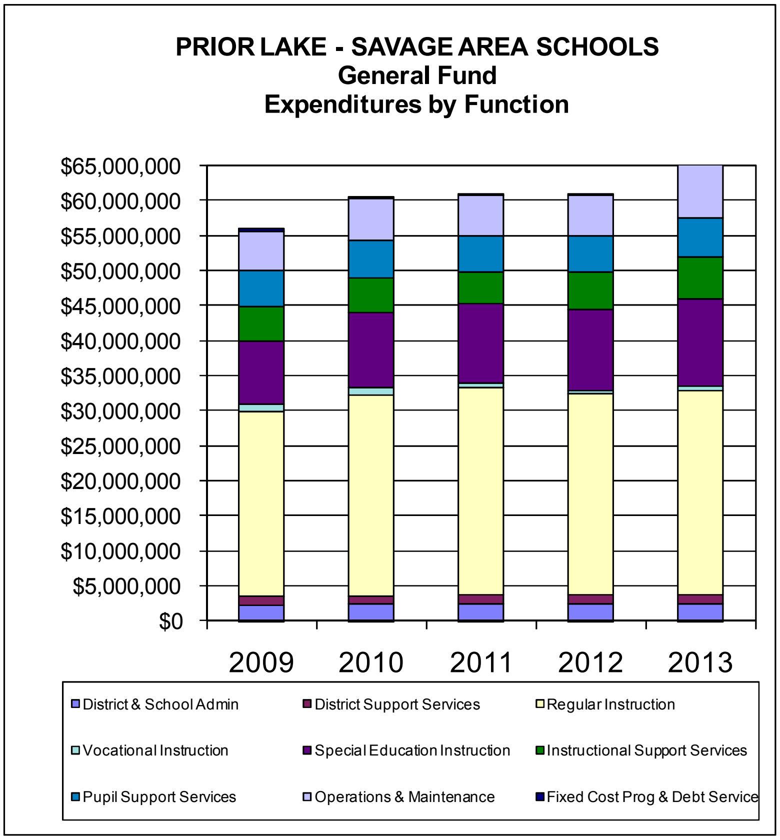
	2007	2008	2009	2010	2011	2012	2013
General Fund - All Expenditures	$8,299	$8,313	$8,144	$8,671	$8,687	$8,564	$9,185

The District expended $621 more per student served in fiscal 2013 than it had for fiscal 2012. A significant portion of this increase is the result of capital projects that were undertaken by the District for fiscal 2013.

Expenditures Per Student (Continued)
The following schedule shows total expenditures of the General Fund by program type:



Expenditures Per Student (Continued)



	2009	2010	2011	2012	2013
District and School Admin	$ 2,348,936	$ 2,444,355	$ 2,547,660	$ 2,535,087	$ 2,565,950
District Support Services	1,284,847	1,181,184	1,138,869	1,168,207	1,293,734
Regular Instruction	26,376,551	28,606,885	29,723,873	28,711,128	29,098,624
Vocational Instruction	1,004,953	1,092,029	640,500	586,156	585,877
Special Education Instruction	8,903,995	10,801,632	11,323,654	11,476,531	12,551,354
Instructional Support Services	5,060,615	4,890,617	4,518,027	5,392,618	5,906,605
Pupil Support Services	5,019,368	5,363,719	5,115,598	5,126,464	5,566,546
Operations and Maintenance	5,750,428	5,896,173	5,786,736	5,718,256	8,480,035
Fixed Cost Prog and Debt Service	250,844	213,604	209,054	221,525	214,070
Total Expenditures	$ 56,000,537	$ 60,490,198	$ 61,003,971	$ 60,935,972	$ 66,262,795

The following chart summarizes District General Fund expenditures by object type:

	2013				2012	2011
	Final Amended Budget	Actual	Over (Under) Budget	%	Actual	Actual
Salaries	$ 37,531,915	$ 37,254,703	$ (277,212)	-0.7%	$ 35,387,522	$ 36,073,407
Employee Benefits	14,762,662	14,724,756	(37,906)	-0.3%	14,498,199	15,057,337
Purchased Services	9,129,779	9,010,043	(119,736)	-1.3%	6,489,560	6,471,986
Supplies and Materials	2,442,858	2,016,918	(425,940)	-17.4%	2,363,932	1,775,243
Capital Expenditures	3,097,464	3,146,949	49,485	1.6%	2,072,300	1,490,151
Other Expenditures	113,319	109,426	(3,893)	-3.4%	124,459	135,831
Total Expenditures	$ 67,077,997	$ 66,262,795	$ (815,202)	-1.2%	$ 60,935,972	$ 61,003,955

On a net basis, total expenditures were 1.2% lower than reflected in the final amended budget amount.

General Fund Operations and Financial Position

The following table presents five years of comparative operating results for the District's General Fund:

	Year Ended June 30,				
	2009	2010	2011	2012	2013
Revenues	$ 57,824,334	$ 62,210,830	$ 63,728,527	$ 64,925,414	$ 67,162,482
Expenditures	56,000,537	60,490,198	61,003,955	60,935,972	66,262,795
Excess of Revenues Over Expenditures	1,823,797	1,720,632	2,724,572	3,989,442	899,687
Other Financing Sources:					
Capital Improvement Loan Proceeds	-	-	-	-	547,305
Excess of Revenues and Other Financing Sources Over Expenditures	1,823,797	1,720,632	2,724,572	3,989,442	1,446,992
Fund Balance:					
Beginning of Year	1,111,245	2,935,042	4,655,674	7,380,246	11,369,688
End of Year	$ 2,935,042	$ 4,655,674	$ 7,380,246	$ 11,369,688	$ 12,816,680
Nonspendable Fund Balance	$ -	$ 306,875	$ 234,241	$ 343,268	$ 454,439
Restricted Fund Balance	1,131,115	1,157,355	1,774,958	2,419,865	2,864,380
Assigned Fund Balance	-	2,019,443	4,199,715	4,481,225	4,858,093
Unassigned Fund Balance	1,803,927	1,172,001	1,171,332	4,125,330	4,639,768
Total Fund Balance	$ 2,935,042	$ 4,655,674	$ 7,380,246	$ 11,369,688	$ 12,816,680
Unassigned Fund Balance as a Percentage of Expenditures	3.22%	1.94%	1.92%	6.77%	7.00%

The District's General Fund had revenues and other financing sources over expenditures of $1,446,992 for fiscal 2013, increasing total fund balance to $12,816,680 at June 30, 2013. Total fund balance includes a net of $2,864,380 in restricted accounts, $454,439 in nonspendable accounts, $4,858,093 in Board-assigned accounts as prescribed by state statute. That leaves an unassigned fund balance of $4,639,768 at year-end, which is 7.0% of total General Fund expenditures.

The increase in total revenue from fiscal 2012 to fiscal 2013 of $2.24 million can be primarily attributed to enrollment growth, formula improvement and new aid such as Literacy Incentive Aid.

General Fund expenditures for fiscal 2013 were $66,262,795 which represents an increase of $5,326,823 or 8.7% from fiscal 2012.

Food Service Fund

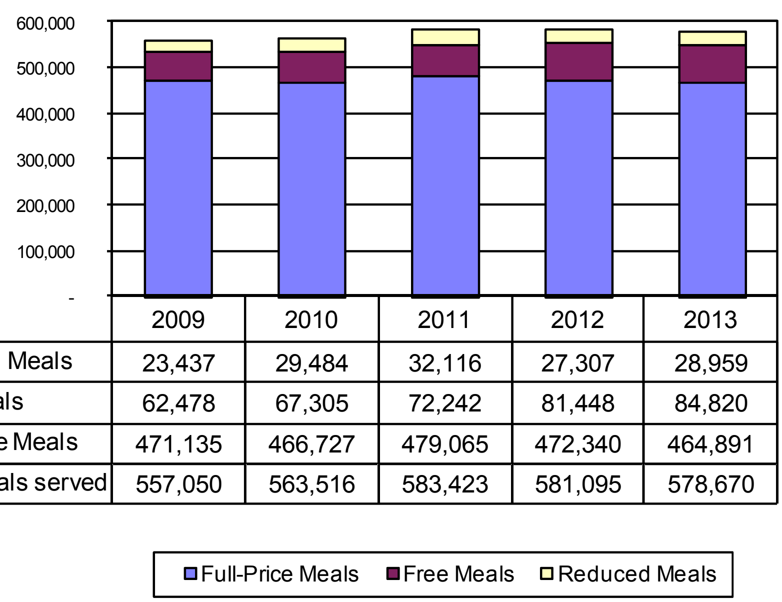
The following chart reflects the growth of the food service program over the past five years:

	Year Ended June 30,				
	2009	2010	2011	2012	2013
Revenues	$ 3,070,285	$ 3,183,682	$ 3,201,739	$ 3,312,294	$ 3,494,798
Expenditures	3,007,713	3,242,145	3,200,893	3,297,668	3,418,305
Excess (Deficiency) of Revenues Over (Under) Expenditures	62,572	(58,463)	846	14,626	76,493
Fund Balance:					
Beginning of Year	385,964	448,536	390,073	390,919	405,545
End of Year	$ 448,536	$ 390,073	$ 390,919	$ 405,545	$ 482,038
Lunches Served to Students	557,050	563,516	583,423	581,095	578,670
Revenue per Lunch Served	$ 5.51	$ 5.65	$ 5.49	$ 5.70	$ 6.04

Total revenues exceeded total expenditures by $76,493 in the District’s Food Service Fund for 2013, increasing fund balance to $482,038 at June 30, 2013. The ending fund balance represents 14.10% of expenditures and provides for cashflow and can serve as a source for capital improvements to the food service program as needs warrant. Total revenue was higher than the final budgeted amount by $131,198 while total expenditures were $45,510 more than the budgeted amount. The net impact of these variances was to increase the fund balance of the Food Service Fund by $85,688 more than had been anticipated. The District should continue the process of carefully reviewing Food Service Fund budgeting procedures to ensure that meal pricing and other related decisions are based upon the best information possible and that budgets are adhered to.

The following chart reflects the number and type of meals served to students over the past five years:

MEALS SERVED TO STUDENTS



	2009	2010	2011	2012	2013
Reduced Meals	23,437	29,484	32,116	27,307	28,959
Free Meals	62,478	67,305	72,242	81,448	84,820
Full-Price Meals	471,135	466,727	479,065	472,340	464,891
Total meals served	557,050	563,516	583,423	581,095	578,670

Community Service Fund

The following table presents five years of comparative operating results for the District's Community Service Fund:

	Year Ended June 30,				
	2009	2010	2011	2012	2013
Revenues	$ 3,899,357	$ 4,262,174	$ 4,606,528	$ 4,932,936	$ 5,018,840
Expenditures	4,020,207	4,243,135	4,387,145	4,582,419	5,114,750
Excess (Deficiency) of Revenues Over (Under) Expenditures	(120,850)	19,039	219,383	350,517	(95,910)
Fund Balance:					
Beginning of Year	876,649	755,799	774,838	994,221	1,344,738
End of Year	$ 755,799	$ 774,838	$ 994,221	$ 1,344,738	$ 1,248,828
Fund Balance:					
Nonspendable	$ -	$ 1,577	$ 5,690	$ 3,433	$ 3,982
Restricted for Community Ed	683,725	605,455	777,349	1,075,740	1,184,944
Restricted for ECFE	38,226	117,867	129,065	126,578	27,864
Restricted for School Readiness	17,666	33,414	80,953	124,160	32,038
Restricted for Other Purposes	-	16,525	1,164	14,827	-
Unreserved / Undesignated	16,182	-	-	-	-
Total Fund Balance	$ 755,799	$ 774,838	$ 994,221	$ 1,344,738	$ 1,248,828

The District's Community Service Fund total expenditures exceeded revenues by $95,910 for fiscal 2013, bringing the combined fund balance to $1,248,848 at June 30, 2013. Total revenue was more than the final budgeted amount by $33,744 while total expenditures were $360,400 less than the budgeted amount. The net impact of these variances was to decrease the fund balance of the Community Service Fund by $394,144 less than had been anticipated. The District should continue the process of carefully reviewing Community Service Fund budgeting procedures to ensure that class pricing and costs and other related decisions are based upon the best information possible. There are calculations done by MDE that limit the ability a District's to accumulate excess fund balance.

APPENDIX B

	Statewide All Districts 2012	Statewide Seven County Metro Area 2012	Statewide Enrollment > than 4,450 2012	ISD No. 719 Prior Lake - Savage Area Schools 2011	ISD No. 719 Prior Lake - Savage Area Schools 2012	ISD No. 719 Prior Lake - Savage Area Schools 2013
District and School Admin and Support Services	$ 864	$ 805	$ 785	$ 516	$ 510	$ 525
Regular Instruction (including Co- & Extra-Curricular)	4,847	5,103	4,986	4,155	3,941	3,934
Vocational Instruction (Career & Technical)	133	136	135	91	82	81
Special Education Instruction	1,853	2,004	2,022	1,594	1,597	1,721
Instructional Support Services	449	537	533	633	675	705
Pupil Support Services (excluding Transportation)	283	335	328	241	311	321
Pupil Transportation	610	622	610	484	404	444
Operations & Maintenance and Other	793	755	758	718	690	943
Food Service	483	480	475	447	455	467
Community Service	507	630	608	615	629	690
Capital Expenditure (excluding Building Constr Fund)	520	410	398	225	304	448
Debt Service	1,275	1,312	1,371	1,977	1,945	1,753
Total Pre-K - 12 Operating Expenditures	$ 12,617	$ 13,129	$ 13,009	$ 11,695	$ 11,542	$ 12,032
Percent Change from Prior Year				-1.59%	-1.30%	4.24%

Source of Statewide Data: School District Profiles published by the Minnesota Department of Education

District and school admin and support services - all costs related to providing administration to the District (school board, superintendent, principals, assistant superintendents, directors of instructional areas, etc.) and all central office administration (business services, human resources, legal, data processing, other district-wide support activities)

Regular instruction - includes all activities dealing directly with the teaching of pupils including co-curricular and extra-curricular activities and the interaction between teachers and pupils in the classroom (excluding exceptional, vocational and community education instruction) and includes activities of aides or assistants of any type (paraprofessionals, clerks, graders, etc.) who assist in the educational process, except spec ed aides

Vocational instruction - consists of costs related to courses and activities which develop knowledge, skills, attitudes and behavioral characteristics for students seeking career exploration and employability

Special education instruction - consists of activities providing learning experiences for pupils of any age, who because of certain atypical characteristics or conditions, have been identified as requiring, or who would benefit by, educational programs differentiated from those provided pupils in regular or vocational instruction

Instructional support services - activities for assisting instructional staff with content and process of providing learning experiences for pupils in K-12 (curriculum, staff dev, educ media, libraries and media centers, etc.)

Pupil support services - all services to pupils not classified as instructional (counseling & guidance, health services, psychological services, social work, pupil transportation and safety, etc.)

Transportation - all costs for pupil transportation

Operations and maintenance - activities related to the operation, maintenance, repair and remodeling of all physical plant, facilities and grounds of the District

Food service - all costs of the Food Service Fund

Community service - all costs of the Community Service Fund

Capital expenditures - all capital expenditures charged to operating funds (which excludes the Building Construction Fund)

Debt service - all Debt Service Fund costs (principal, interest and fiscal agent costs)

APPENDIX C

LEGISLATIVE ACTIVITY

What follows are some education-related highlights of recent legislative sessions as summarized from information made available by the Minnesota Department of Education, the Minnesota School Boards Association, Office of the Legislative Auditor, and the Minnesota House of Representatives. This year's Omnibus Education Finance and Policy bill included $485 million in new spending over the next biennium (FY14-15), including annual increases in the basic general education formula, statewide all day, every day kindergarten, early learning scholarships, and special education funding reform.

Pupil Accounting Changes Effective FY 2014

Length of School Year

A school district is required to have at least 165 days of instruction for grades 1 through 12 in each school year unless the Commissioner has approved a four-day week schedule.

Extended Time Revenue for Grade Level Acceleration

The ability of school districts and charter schools to generate extended time revenue for programs designed to accelerate grade level advancement so that students graduate before their peers was eliminated.

Pupil Accounting Changes Effective FY 2015

Pupil unit weights were simplified with the changes as follows:

- Pre-kindergarten Disabled: from 1.25 to 1.0
- Part-time Kindergarten: from .612 to .55
- All-Day Kindergarten: from .612 to 1.0
- Grades 1-3: from 1.115 to 1.0
- Grades 4-6: from 1.06 to 1.0
- Grades 7-12: from 1.3 to 1.2

Marginal Cost Pupil Units

Eliminates "marginal cost" calculations from the definition of pupil units. Beginning in FY 2015, establishes a new component of general education revenue, "declining enrollment revenue," to replace funding previously provided to districts with declining enrollment through marginal cost pupil units. Sets declining enrollment revenue equal to the decline in adjusted pupil units between the prior year and the current year times 28% of the formula allowance.

All Day Kindergarten

To qualify for the higher 1.0 kindergarten weight, a pupil must be enrolled in a free all-day program that is available free to all kindergarten students at the pupil's school, and the annual school calendar for the kindergarten program must have at least 850 hours of instruction.

For purposes of calculating extended time revenue, an all-day kindergarten pupil must first receive at least 850 hours of instruction during the year before generating extended time pupil units.

Early Admission to Kindergarten

Requires that board-adopted policies for early admission be based on a comprehensive evaluation to determine the child's ability to meet kindergarten expectations and progress to first grade in the subsequent year. Requires a school board that has adopted a policy to allow a child under the age of five to enroll in kindergarten to establish a comprehensive evaluation to be used to determine the kindergarten pupil's cognitive, social, and emotional development. Requires parents and the commissioner to have access to the board's early kindergarten admission policy.

Pension Adjustment Effective FY 2015

The aid reduction for the 1997 change in employer contribution rate for Teachers Retirement Association (TRA) and other pension rate changes was eliminated. Districts with a below average reduction for pension adjustment will be provided pension adjustment revenue to guarantee state average gain from elimination of pension adjustment. The basic formula will be adjusted to neutralize the overall statewide impact.

General Education Formula Allowance

For FY 2014, the formula allowance was increased by $78 from $5,224 to $5,302 (1.5%). The old pupil unit and formula structure remain in effect.

For FY 2015, the formula allowance increases to $5,806 (1.5% after adjusting for new pupil weights and the elimination of the aid subtraction for pension rate changes). The formula allowance was determined by: 1) Calculating the state total general education revenue for FY 2015 with an $80 (1.5%) increase in the formula allowance and no change in pupil weights or other formula changes, and 2) Setting the formula allowance at the amount that generates the same state total general education revenue with the new pupil weights, pension adjustment change and other formula changes in place. Of the $504 increase over FY 2014, $80 is for inflation at 1.5%; the remaining $424 is to adjust for the pupil weight change, pension adjustment change and other restructuring.

Examples of Rate Adjustments to Neutralize Pupil Weighting Changes FY 2015

- Extended time allowance was increased from $4,601 to $5,017
- Adjusts the compensatory revenue formula for fiscal year 2015 and later by deducting $839 from the formula allowance for compensatory revenue calculations instead of $415
- Deducts $530 from the formula allowance used in calculating elementary and secondary sparsity revenue for FY 2015 and later
- Gifted & Talented allowance was increased from $12 to $13
- Adjusts the transportation sparsity formula to account for the removal of marginal cost pupil unit accounting and the new pupil weights including a change in the deduction factor from 4.85% to 4.66% of basic revenue
- Includes small high schools in geographically isolated school districts with more than one high school in the small schools revenue formula. Small Schools adjusted from $522.40 to $544 and the threshold was adjusted from 1,000 to 960 pupil units
- Operating Capital was adjusted from $73 + $100 x building age index to $79 + $109 x building age index and the learning year rate increases from $30 to $31
- Equity sliding scale was increased from $75 to $80; the basic allowance for a district with no referendum revenue increases from $13 to $14; and the equity flat rate that applies to all districts was increased from $46 to $50
- EL (LEP) rate was adjusted from $700 to $704

Uses of General Education Revenue (Effective FY14 unless noted)

- Statute was clarified that operating capital revenue may be used to purchase or lease computers and related hardware, software, and annual licensing fees.
- Teacher evaluation was added to the allowable uses of staff development revenue.
- A district is allowed to use up to 5% of its compensatory revenue for programs designed to prepare children for entry into school including early education programs, parent-training programs, school readiness programs, early kindergarten programs for four-year olds, and voluntary home visits and other outreach. This is in addition to the 5% that districts currently have flexibility with. The remaining 90% of compensatory revenue must be spent at the site where the revenue is generated.
- A district is allowed to use revenue generated for all-day K to meet the needs of 3 and 4 years olds in the district. (Effective FY 15).

Uniform General Education Levy Effective FY 2015 (Pay 2014 Levy)

The uniform general education levy was reinstated at $20 million (called “student achievement levy”) and is spread on net tax capacity. The operating capital equalizing factor was increased to offset the uniform general education levy. There was no net change in state total levy; districts that are “off the formula” for operating capital levy will see a small levy increase while other districts will see a small levy decrease.

Operating Referendum Revenue Effective FY 2015 (Pay 2014 Levy)

The operating referendum revenue was converted from an amount per Resident Marginal Cost Pupil Unit to an amount per Adjusted Pupil Unit (APU). The separate alternative attendance adjustment was eliminated and rolled into an allowance per APU. The new rate per pupil unit will generate the same revenue for each district for FY 2015 as the sum of the old rate per pupil unit and the old alternative attendance adjustment.

The standard and grandfather referendum caps will be recalculated to reflect the pupil unit weighting changes and conversion to a rate per adjusted pupil unit. The new standard cap is $1,845 per new pupil unit for FY 2015, and is adjusted for inflation using the consumer price index in later years. For a district receiving location equity revenue, the grandfather cap is reduced by the location equity allowance.

School boards are allowed to convert up to $300 per APU from voter-approved to board-approved. Board action had to be taken before September 30 of prior year so that levy is included in proposed property taxes (no authority to increase levy without election after September 30). Districts with less than $300 per APU are permitted to authorize additional referendum revenue up to a total of $300 per APU. The equalization was increased with a new 3 tiered formula.

A district is prohibited from conducting a referendum election to increase its referendum allowance for FY 2015. Exceptions include:

- A district may renew an expiring referendum at the same allowance as the expiring referendum;
- A district is exempt from the freeze if it adopted a board resolution prior to June 30 to conduct a referendum in 2013.
- A district is exempt if it did not authorize an operating referendum in fiscal year 2014.
- A district is exempt if it is in statutory operating debt as of June 30, 2013.

Location Equity Revenue Effective FY 2015

School districts with any land area in 7 county metro area qualify for $424 per APU location equity levy, equalized at $510,000. School districts not eligible as metro districts and with > 2,000 adjusted ADM in the 3rd prior fiscal year qualify for $212 location equity levy, equalized at $510,000. Location equity revenue is board approved; it is deducted from operating referendum revenue. A district may opt out of location equity revenue by a board vote taken by September 1 of the fiscal year before the fiscal year when the revenue takes effect (Sept 2013 for FY 2015 revenue).

MDE will implement the calculation of Operating Referendum and Location Equity revenue in the following order: 1) For districts that do not opt out of location equity revenue, MDE will first calculate a district's net voter approved referendum allowance by subtracting the location equity allowance from the initial voter approved referendum allowance, 2) Eligibility for a board-approved referendum increase (up to $300 per APU) is determined after the referendum allowance is reduced for location equity revenue, 3) Under this calculation order, the increases in board-approved revenue from the two provisions are additive (stackable), with the maximum board approved allowances being $724 for metro districts and $512 for non-metro districts with ADM that is more than 2,000.

Other General Education Changes

Q Comp was rolled out of the general education revenue program to a new categorical beginning FY 2015 with no change in the program or funding formula.

Early Graduation Scholarships and Military Service Awards was repealed beginning FY 2014.

Learning and Development Revenue Set-aside was modified such that the current class size reduction set aside will be converted from an amount based on pupil unit weights to an equivalent amount per student in ADM -- $299 per kindergarten student plus $459 per student in grades 1-6, beginning FY 2015.

Career Technical Education (CTE) Revenue

The career and technical education (CTE) levy was converted to an equalized aid and levy, with an equalizing factor of $7,612, beginning in FY2014. The statewide revenue limit for career and technical revenue for fiscal year 2014 was increased from $15,393,000 to $20,657,000. The revenue for FY 2014 continues to be based on the old CTE formula, with the proration factor adjusted to hit the statewide revenue target. Beginning in FY 2015, the statewide revenue limit expires, and revenue is computed using the new formula enacted in 2012 that bases funding on 35% of approved program expenditures. The expenditure calculations for career and technical programs offered jointly by school districts was also clarified–the costs for reimbursing another district for CTE instructional salaries is included in the revenue calculations for the districts paying the reimbursement and deducted from the revenue calculation for the district receiving the reimbursement.

Safe Schools Levy

The safe schools levy for taxes payable in 2014 and later was increased from $30 to $36 per pupil unit—$4 of the increase is new revenue and the other $2 is to adjust for pupil unit weighting changes. The safe schools levy for intermediate district members remains at $10 per PU. Statute was clarified that uses of the safe school levy includes facility security enhancements, efforts to improve the school climate, and costs associated with mental health services.

Lease Purchase Levy; Integration Programs

Minneapolis, St. Paul, Duluth, and Rochester are authorized to continue to use the lease purchase levy under MS 126C.40, subdivision 6, if the acquisition of property is determined by the commissioner to contribute to the implementation of their approved desegregation plan. Other districts eligible for achievement and integration revenue are allowed to use the lease purchase levy for projects that are primarily used for inter-district desegregation efforts.

Pupil Transportation (FY 2014)

- PSEO: Allows school districts to transport PSEO pupils to and from the postsecondary institution if the pupil is participating in an articulated program.
- Homeless: Allows a district to include the cost of transporting a child who does not have a school of origin to the same school attended by that child's sibling if the siblings are homeless in finance 728 (eligible for special education aid).
- Cost Allocation: Allows a school district that contracts for transportation services to allocate certain transportation expenses based on contract rates if the rates are reasonably consistent on a cost per mile, cost per hour, cost per student or cost per route basis. Districts must maintain records to document rate consistency to auditors.

Compulsory Attendance Age Increase

The age of compulsory attendance was increased to age 17. A student 16 years or older is allowed to be assigned to an area learning center.

Achievement and Integration Revenue

The old Integration Revenue was replaced beginning in FY 2014. The initial revenue equals $350 x APU x prior year minority concentration percent + 66% of difference between FY 2013 integration revenue and amount computed using the rate for FY 2014. There is also an incentive revenue which equals $10 x APU, therefore, total revenue equals initial revenue + incentive revenue. Revenue cannot exceed expenditures under an approved budget.

At least 80% of a district's revenue is required to be used for innovative and integrated learning environments.

Up to 20% of revenue is allowed to be used for professional and staff development. Administration expenditures are limited to no more than 10% of revenue.

The Commissioner is directed to determine after three years if a district has met its goals. Districts that have met their goals are allowed to submit another three year plan. For districts not meeting goals, districts must work in consultation with the Commissioner to develop a new plan and strategies and the Commissioner may direct the use of up to 20% of a district's revenue to implement the new plan.

New Special Education Funding Formula Effective FY 2016

For FY 2016 and later, defines special education initial aid as the least of:

(1) 62% of the district's old formula special education expenditures for the prior fiscal year;
(2) 50% of the district's non-federal special education expenditures for the prior year; or
(3) 56% of the amount calculated using a new pupil-driven formula based on prior year data.

Details of new pupil-driven formula component for FY 2016 and later:

Aid = 56% of the sum of:
  (i) ADM served x the sum of:
    (A) $450;
    (B) $400 times the ratio of the sum of the number of enrolled pupils who are eligible for free lunch plus 50% of the number of pupils eligible for reduced-price meals; and
    (C) .008 times the district's average daily membership served;

Plus:
  (ii) $10,400 times the district's number of students who are autistic, developmentally delayed, or severely multiply impaired;
  (iii) $18,000 times the district's number of students who are deaf, hard of hearing, or have emotional or behavioral disorders; and
  (iv) $27,000 times the number of students in the disability area of developmentally cognitive mild-moderate, developmentally cognitive severe-profound, physically impaired, visually impaired, or deaf-blind.

Excess cost aid is the greater of:
  (1) 56% of the difference between the district's unreimbursed nonfederal special education cost and 7% of the district's general education revenue, or
  (2) 62% of the difference between the district's unreimbursed old formula special education cost and 2.5% of the district's general education revenue.

Calculated using prior year data.

State total special education aid is increased by $39 million for FY 2016 and by $41 million for FY 2017. Beginning in FY 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than having those aids flow through the resident district. Tuition bills will be reduced to offset the aid paid to the cooperatives and intermediates.

Special Education Funding Transition to New Formula: FY 2014 – FY 2015

Current special education – regular formula remains in place for FY 2014 and FY 2015 – no change from current law (4.6% growth continues).

New cross subsidy reduction aid is added for FY 2014 and FY 2015 only:

- Aid for FY 2014 equals the lesser of $20 per ADM served or 1% of the amount generated for the district under the new pupil-based formula component.
- Aid for FY 2015 equals the lesser of $48 per ADM served or 2.27% of the amount generated for the district under the new pupil-based formula component.
- State total aid entitlement is $13 million for FY 2014 and $30 million for FY 2015.
- Cross subsidy reduction aid applies only to school districts; charter schools and cooperatives are not eligible.

Excess cost aid changes for FY 2014 and FY 2015:

- Aid will be calculated using prior year data.
- Special education tuition receipts and expenditures will not be taken into account in excess cost aid calculations, to expedite the excess cost aid calculations and eliminate circularity between tuition billing and excess cost aid.
- Special education cross subsidy aid and the general education aid attributable students served outside the regular classroom more than 60% of the time are taken into account in excess cost aid calculations.

Special Education Tuition Billing Effective FY 2015

Beginning in FY 2015, requires the serving district or charter school to cover 10% of unfunded special education costs, reducing the amount borne by the resident district from 100% to 90%. Intermediate districts, cooperatives and charter schools where at least 70% of students are eligible for special education are exempt from this provision and continue to be able to recover 100% of unfunded special education costs from the resident district.

Facilities - Overview

The fixed, standing appropriation for debt service equalization aid was converted to an open and standing appropriation. The rates for debt service equalization and deferred maintenance revenue were adjusted to conform to pupil unit weight changes. The authority for the Minneapolis and St Paul school districts to annually issue and sell $15 million in facility bonds without voter approval was made permanent.

School Lunch Aid

The rate for each school lunch served was increased from 12 to 12.5 cents, effective July 1, 2013.

Fund Transfers - FY 2014 and FY 2015 Only

The authorization provided in 2012 legislation was modified for a school district, upon approval of the commissioner, to transfer money in FY 2014 and FY 2015 from any fund or account to any other fund or account unless that transfer would have an impact on state aids or local levies. Transfers from the Community Service Fund, Food Service Fund, or the reserved account for staff development revenue are prohibited.

Other Accounting Issues

Integration Revenue – continues to forward shift the integration levy for Minneapolis, St Paul and Duluth.

The forward-shifting of the integration aid program was eliminated.

Special Education Aid – combines the regular, cross subsidy and excess cost aids into one appropriation and uses 97.4% of entitlement in computing current payments.

Accelerated Repayment of Education Aids – created a mechanism for one-time repayment of education shifts based on September 30, 2013 Minnesota Management and Budget estimate of any positive unrestricted budgetary state general fund balance as of June 30, 2013. The repayment of the aid shift, if any, would occur in October 2013; repayment of tax shift, if any, would occur in June 2014.

Early Childhood and Lifelong Learning

Adult Basic Education (ABE) - increased the growth factor from 1.02 to 1.025 for FY15 and later

Early Learning Scholarships

- For a family to receive a scholarship it must have a child age 3 or 4 on September 1st of the current year and has income equal to or less than 185% of federal poverty level
- Allows for a parent under the age of 21 who is pursuing a high school degree to be eligible for a scholarship for a child age zero to 5
- Any sibling between zero and 5 has access to a scholarship to attend same program
- Scholarships may be awarded up to $5,000 per child per year

Nonpublic Pupil Aids

Clarifies that all-day kindergarten pupils are counted as 1.0 pupil for purposes of nonpublic pupil aid.

APPENDIX D

TECHNICAL UPDATE

GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This statement was effective for the fiscal year ended June 30, 2013, and provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources; which are defined as the consumption or acquisition of net assets, respectively, applicable to a future reporting period. The statement amended certain reporting requirements in GASB Statement No. 34 and related pronouncements, providing a format for a new Statement of Net Position, which will report, once GASB Statement No. 65 is effective, deferred outflows of resources and deferred inflows of resources separately from assets and liabilities. It also renamed the residual of assets, deferred outflows of resources, liabilities, and deferred inflows of resources as net position, rather than net assets.

GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities

This statement is a companion to GASB Statement No. 63 and will be effective for the school district's fiscal year ended June 30, 2014. Upon adoption of GASB No. 65, certain items previously reported as assets will be reported as deferred outflows, and certain items previously reported as liabilities will be reported as deferred inflows. One common liability —property taxes levied for subsequent year (deferred revenue) — demonstrates the significance of the changes in how financial statements will appear.

Minnesota school districts levy property taxes and have a tax calendar that looks like this:

- January 1 — Tax levy occurs and lien attaches
- May 1 — First half of annual taxes collected
- July 1 — New fiscal year begins
- October 1 — Second half of annual taxes collected

Currently, school districts would report a property tax receivable, and a comparable deferred revenue liability (property taxes levied for subsequent year), for the portion of the property tax levied but not yet collected as of June 30. Under GASB No. 65, the deferred revenue amount will be presented as a deferred inflow rather than a liability.

This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

GASB Statement No. 67 – Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25

The primary objective of this statement is to improve financial reporting by state and local governmental pension plans. In Minnesota this will be applicable to statewide pension plans such as PERA and TRA for the fiscal year ended June 30, 2014. GASB Statement No. 67 replaces the requirements of GASB Statements Nos. 25 and 50 for pension plans that are administered through trusts or equivalent arrangements that meet the following criteria: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. The requirements of GASB Statements Nos. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement.

All retiree health care benefits and OPEB benefits are not subject to the GASB's new pension standards. Instead, they are subject to the GASB's current OPEB standards provided in Statements Nos. 43 and 45, although the OPEB standards are also currently under review by GASB.

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement is effective for school district financial statements for the fiscal year ending June 30, 2015, although earlier application is encouraged. This statement replaces the requirements of GASB Statements Nos. 27 and 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria (as described above for GASB Statement No. 67). This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

Included in this statement are major changes in how employers that participate in cost-sharing pension plans, such as TRA and PERA, account for pension benefit expenses and liabilities. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting (government-wide and proprietary funds), a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability of all employers with benefits provided through the pension plan. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all active and inactive employees that are provided with pensions through the pension plan.

When GASB Statement No. 68 is implemented, pension costs will be much more prominent in school district financial statements – each employer's share of the TRA or PERA unfunded liability will have to be shown on the face of the government-wide financial statements. Previously school districts showed the annual contributions they paid to the pension systems to pay down that unfunded liability. Both TRA and PERA will regularly report actuarial valuation results for each school district. The unfunded portion of the school district's pension obligation will be reported to the school district so that it can show it as a liability in its financial statements and that amount may be substantial for many. School districts currently have no comparable reporting requirements in statements, footnotes or schedules. Instead, they report their annual contributions to the pension systems.

APPENDIX E

FORMAL REQUIRED COMMUNICATIONS

School Board
Independent School District No. 719
Prior Lake-Savage Area Schools
Prior Lake, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Prior Lake-Savage Area Schools (the school) as of and for the year ended June 30, 2013, and have issued our report thereon dated November 11, 2013. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, 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 school are described in Note 1 to the financial statements.

For the year ended June 30, 2013, the financial statements include the impact of adoption of Governmental Accounting Standards Board Statement (GASB) Nos. 62 and 63.

GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASB No. 20. GASB No. 20 gave governments the choice to elect to follow only the authoritative literature of the Governmental Accounting Standards Board (GASB) or to follow Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASBS No. 62, all governmental accounting guidance is codified into the GASB literature.

GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance on reporting deferred outflows and inflows of resources. It also renames the residual of all other amounts presented in the statement of financial position from “net assets” to “net position.” The financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of future GASB standards will include reporting of some items previously reported as assets and liabilities as deferred outflows and inflows of resources.

We noted no transactions entered into by the school 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 the Federal Government through the Minnesota Department of Education
- Severance Benefits Payable
- Other Postemployment Benefits Payable
- Estimated Useful Lives of Depreciable Capital Assets

Management's estimate of Due from Minnesota Department of Education (MDE) is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2012-13. 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 – 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 2013 is not finalized until well into fiscal year 2014. MDE calculates amounts owed to the School for special education excess cost tuition billing and adds the amount to the School's special education aid. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from the Federal Government through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2012-13. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the 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 Severance Benefits Payable is based on certain assumptions made by the District. As required by GASB Statement No. 16, the District has recorded a liability in long-term debt for accumulated sick leave convertible to early retirement pay for which it is probable the employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), and the potential use of accumulated sick leave prior to termination.

Management's estimate of other pension benefits payable is based on an actuarially determined calculation as required by GASB Statement No. 27.

Management's estimate of other postemployment benefits payable 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 useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable 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.

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 11, 2013.

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 school’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 school’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 audit findings or issues

We have provided a separate letter to you dated November 11, 2013, communicating internal control related matters identified during the audit.

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 schedule of expenditures of federal awards (SEFA) 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 SEFA to determine that the SEFA complies with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA 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 11, 2013.

With respect to the individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table (collectively, 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 11, 2013.

The statistical section accompanying the financial statements, which is the responsibility of management, was prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

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 School Board 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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 11, 2013

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APPENDIX F

INDEPENDENT AUDITORS' REPORT ON CONDENSED FINANCIAL STATEMENTS INCLUDED HEREIN

School Board
Independent School District No. 719
Prior Lake-Savage Area Schools
Prior Lake, Minnesota

Report on the Financial Statements

We have audited the financial statements of Independent School District No. 281 (the District) as of and for the years ended June 30, 2013, 2012, 2011 and 2010 (not presented herein). The financial statements as of and for the fiscal year ended June 30, 2009 (not presented herein), were audited by other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 entity'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 entity'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 opinions.

Auditors' Responsibility (Continued)

The condensed Statements of Revenues, Expenditures and Changes in Fund Balance for the years presented on pages 12, 13 and 14 are presented as a summary and, therefore, do not include all of the disclosures required by U.S. generally accepted accounting principles.

Opinions

In our opinion, because of the significance of the omission of the information referred to in the preceding paragraph, the condensed financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America the results of its operations for the years then ended.

This report is intended solely for the information and use of the School Board 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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 11, 2013