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October 24, 2012

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, CPA
Partner

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

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2012

**PRIOR LAKE-SAVAGE AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 719
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JUNE 30, 2012**

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**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
PRIOR LAKE-SAVAGE AREA SCHOOLS
YEAR ENDED JUNE 30, 2012**

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, 2012.

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 three “control deficiencies” in internal controls. Two were considered “material weaknesses” and one was considered a “significant deficiency”.

Single Audit –The District complied with requirements of major federal programs (Special Education Cluster and ARRA-Education Jobs Funding).

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

Enrollment – For fiscal 2011-2012 Prior Lake-Savage Area Schools had an estimated total adjusted average daily membership of 7,021.32 (or 8,149.47 adjusted pupil units). For fiscal 2010-2011, Prior Lake-Savage Area Schools had an estimated total adjusted average daily membership of 6,975.85 (or 8,064.81 adjusted pupil units).

Fund Balance – The School's General Fund unassigned fund balance for UFARS reporting purposes increased by \$2,953,998 during fiscal year 2012, increasing from \$1,171,332 to \$4,125,330. Total fund balance of the General Fund increased by \$3,989,442, ending at \$11,369,688 as of June 30, 2012. The total ending unassigned fund balance represents 6.8% 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 \$886,553 (or 1.4%) higher than the budgeted amount while total expenditures were \$1,639,436 (or 2.6%) lower than had been budgeted. The net effect was an increase in total fund balance that was \$2,525,989 more than had been reflected in the District's budget. The majority of the expenditure budget variance relates to savings on salaries and benefits, including those related to implementation of the self-insurance plan for health insurance benefits as well as unexpended amounts that are subject to site carryover.

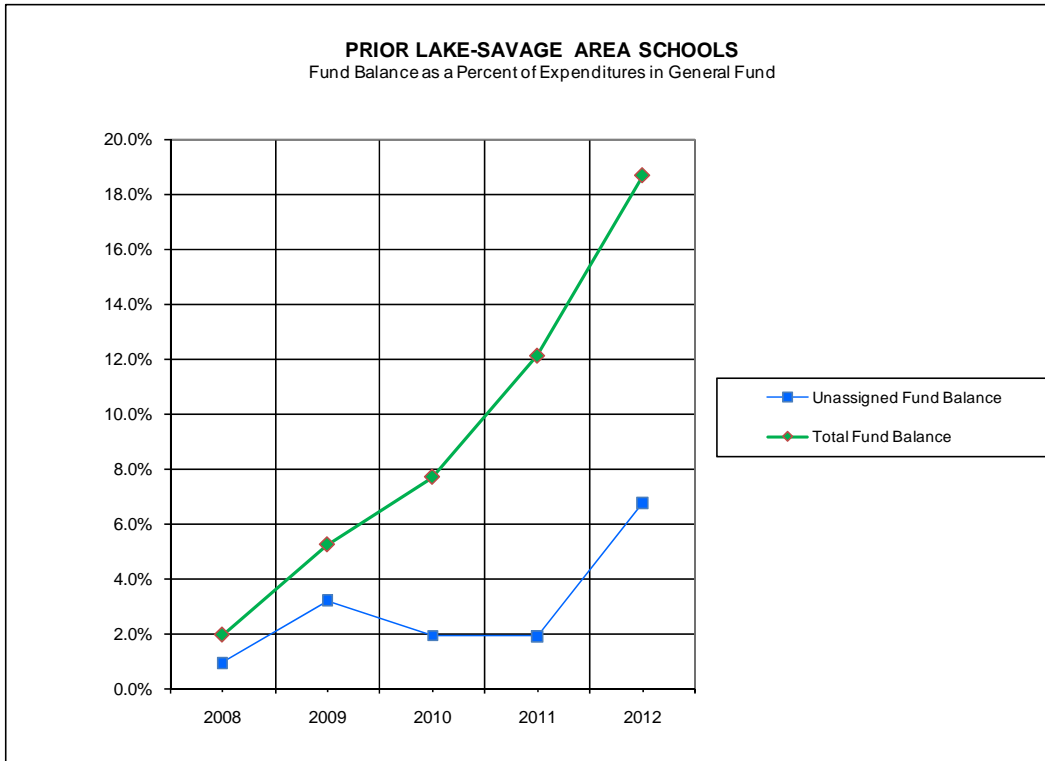
I. FINANCIAL RESULTS

PRIOR LAKE-SAVAGE AREA SCHOOLS AUDITED FUND BALANCES THROUGH JUNE 30, 2012

FUND DESCRIPTION	6/30/11 AUDITED BALANCE	2011-12 AUDITED REVENUES	2011-12 AUDITED EXPENDITURES	TRANSFERS OUT OF FUNDS	6/30/12 AUDITED BALANCE
GENERAL FUND					
A. UNASSIGNED - OPERATING	\$1,171,332	\$58,235,067	\$53,987,228	(\$1,293,841)	\$4,125,330
As a percentage of current year expenditures	1.9%				6.8%
B. NONSPENDABLE FOR					
PREPAIDS	\$18,081	\$108,187	\$0		\$126,268
INVENTORY	\$216,160	\$840	\$0		\$217,000
TOTAL NONSPENDABLE	\$234,241	\$109,027	\$0	\$0	\$343,268
C. ASSIGNED FOR					
SPECIAL EDUCATION STIMULUS	\$501,500	\$231,510	\$0		\$733,010
REDTAIL RIDGE	\$207,380	\$0	\$100,000		\$107,380
CASHFLOW	\$2,000,000	\$0	\$0		\$2,000,000
CLASS-SIZE REDUCTION	\$500,000	\$0	\$0		\$500,000
INNOVATION DOLLARS	\$0	\$500,000	\$0		\$500,000
STIMULUS DOLLARS	\$350,000	\$0	\$350,000		\$0
SITE CARRYOVER	\$640,835	\$0	\$0		\$640,835
TOTAL ASSIGNED	\$4,199,715	\$731,510	\$450,000	\$0	\$4,481,225
D. RESTRICTED FOR					
STAFF DEVELOPMENT	\$202,847	\$641,338	\$756,087	\$0	\$88,098
DEFERRED MAINTENANCE	\$157,956	\$306,262	\$203,108	\$0	\$261,110
AREA LEARNING CENTER	\$0	\$393,407	\$501,253	\$107,846	\$0
OPERATING CAPITAL	\$1,591,619	\$1,765,885	\$1,783,591	\$650,000	\$2,223,913
HEALTH & SAFETY	(\$177,464)	\$382,155	\$423,193	\$0	(\$218,502)
LEARNING AND DEVELOPMENT	\$0	\$1,566,016	\$1,566,016	\$0	\$0
GIFTED AND TALENTED	\$0	\$99,163	\$118,693	\$19,530	\$0
BASIC SKILLS	\$0	\$359,970	\$497,896	\$137,926	\$0
CAREER AND TECHNICAL	\$0	\$99,249	\$477,788	\$378,539	\$0
SAFE SCHOOLS	\$0	\$236,365	\$171,119	\$0	\$65,246
TOTAL RESTRICTED	\$1,774,958	\$5,849,810	\$6,498,744	\$1,293,841	\$2,419,865
TOTAL GENERAL FUND	\$7,380,246	\$64,925,414	\$60,935,972	\$0	\$11,369,688
BUDGET DIFFERENCE		\$64,038,861	\$62,575,408	\$0	\$8,843,699
% VARIANCE		1.38%	-2.62%		\$2,525,989
FOOD SERVICE					
NONSPENDABLE FOR INVENTORY	\$48,068	\$1,429	\$0		\$49,497
NONSPENDABLE FOR PREPAID ITEMS	\$150	\$600	\$0		\$750
RESTRICTED FOR FOOD SERVICE PROGRAMS	\$342,701	\$3,310,265	\$3,297,668		\$355,298
TOTAL FOOD SERVICE	\$390,919	\$3,312,294	\$3,297,668	\$0	\$405,545
BUDGET DIFFERENCE		\$3,265,200	\$3,264,370		\$391,749
% VARIANCE		1.44%	1.02%		\$13,796
COMMUNITY EDUCATION					
NONSPENDABLE FOR PREPAID ITEMS	\$5,690	\$0	\$2,257	\$0	\$3,433
A. RESTRICTED FOR					
COMMUNITY EDUCATION PROGRAMS	\$777,349	\$3,926,500	\$3,628,109	\$0	\$1,075,740
ECFE PROGRAMS	\$129,065	\$560,168	\$562,655		\$126,578
SCHOOL READINESS	\$80,953	\$320,599	\$277,392		\$124,160
OTHER PURPOSES	\$1,164	\$125,669	\$112,006		\$14,827
TOTAL COMMUNITY EDUCATION	\$994,221	\$4,932,936	\$4,582,419	\$0	\$1,344,738
BUDGET DIFFERENCE		\$4,655,016	\$5,096,824	\$0	\$552,413
% VARIANCE		5.97%	-10.09%		\$792,325
TOTAL BUILDING FUND	\$1,176,367	(\$1,167)	\$957,321	\$0	\$217,879
BUDGET DIFFERENCE		\$4,000	\$1,625,000		(\$444,633)
% VARIANCE		(\$5,167)	(\$667,679)		\$662,512
DEBT SERVICE					
OPERATING	\$2,069,139	\$13,425,394	\$12,783,402	\$0	\$2,711,131
REFUNDING BONDS	\$24,475,406	\$12,765,394	\$17,048,866	\$0	\$20,191,934
TOTAL DEBT SERVICE	\$26,544,545	\$26,190,788	\$29,832,268	\$0	\$22,903,065
BUDGET DIFFERENCE		\$13,254,035	\$12,689,998		\$27,108,582
% VARIANCE		\$12,936,753	\$17,142,270		(\$4,205,517)
% VARIANCE		97.61%	135.08%		
PROPRIETARY FUNDS					
OPEB REVOCABLE TRUST	\$1,891,161	\$1,124,604	\$0	\$0	\$3,015,765
SELF-INSURANCE ACCOUNTS	\$7,056	\$8,554,562	\$7,309,956	\$0	\$1,251,662
TOTAL PROPRIETARY	\$1,898,217	\$9,679,166	\$7,309,956	\$0	\$4,267,427
TOTAL	\$38,384,515	\$109,039,431	\$106,915,604	\$0	\$40,508,342

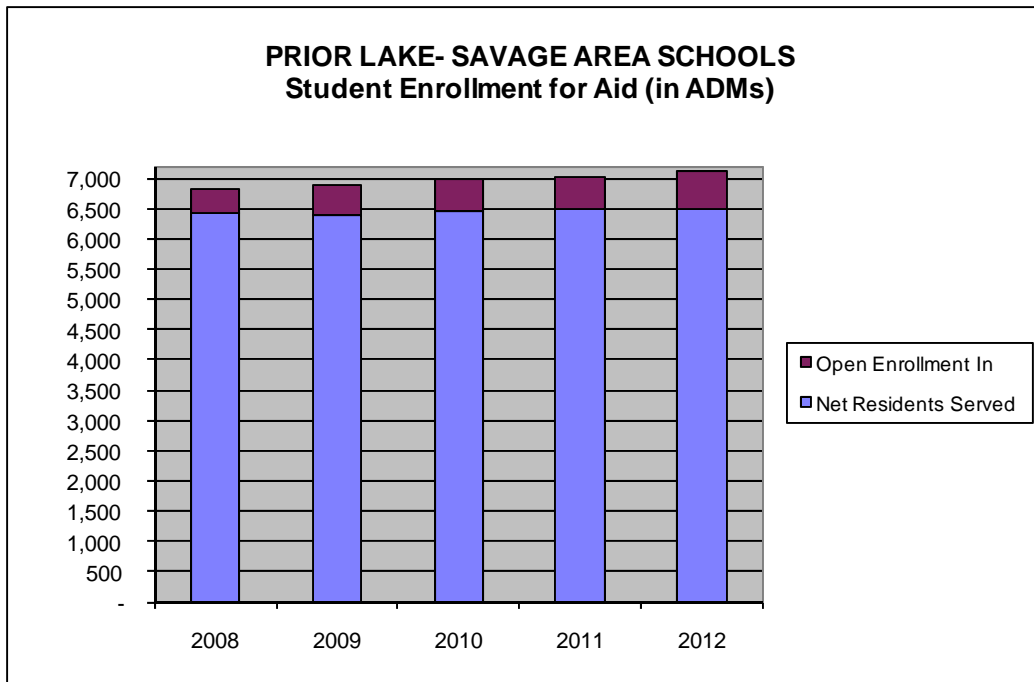
Fund Balances of the General Fund

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



Students Served for Aid

	2008	2009	2010	2011	2012
Total Residents	6,816.67	6,930.64	7,030.05	7,101.40	7,208.59
Open Enrollment Out*	(405.48)	(525.83)	(582.40)	(621.98)	(705.71)
Net Residents Served	6,411.19	6,404.81	6,447.65	6,479.42	6,502.88
Open Enrollment In	407.69	471.53	528.20	542.73	612.69
Net ADM Served	6,818.88	6,876.34	6,975.85	7,022.15	7,115.57
* including charter schools					
Net Pupil Units Served	7,851.34	7,931.30	8,064.81	8,150.46	8,263.64



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 Assets

The Statement of Net Assets essentially tells you what your District owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net assets 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 assets into three components: net assets invested in capital assets-net of related debt, restricted net assets, and unrestricted net assets. The following table presents components of the District's net assets at year-end, along with a simplified reconciliation of the difference between the governmental fund balances and total net assets:

	As of June 30,	
	2012	2011
Total Fund Balance for Governmental Funds	\$ 36,240,915	\$ 12,010,892
Capital Assets, Less Accumulated Depreciation	146,135,051	149,197,376
Long-Term Liabilities	(143,959,302)	(129,228,723)
Other - Net	2,195,584	282,075
Total Net Assets - Governmental Activities	<u>\$ 40,612,248</u>	<u>\$ 32,261,620</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 25,168,372	\$ 23,048,414
Restricted	4,259,070	3,330,757
Unrestricted	11,184,806	5,882,449
Total Net Assets - Governmental Activities	<u>\$ 40,612,248</u>	<u>\$ 32,261,620</u>

Most of the District's fund balances translate into restricted net assets 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 assets 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 assets.

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 assets for fiscal years 2012 and 2011:

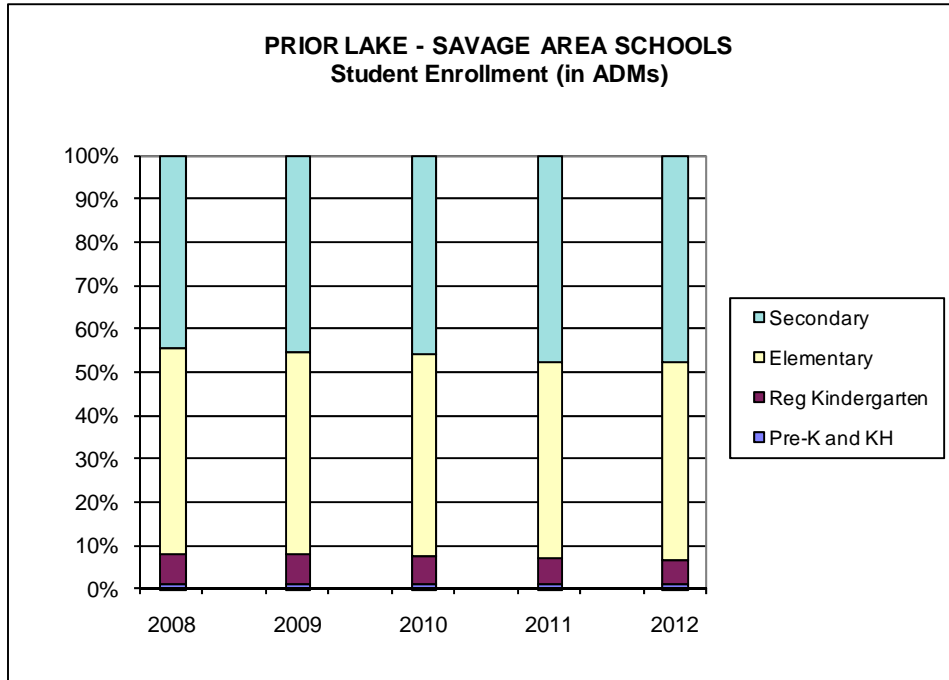
	Year Ended June 30,	
	2012	2011
Net Change in Fund Balance-Total Governmental Funds	\$ (245,383)	\$ 2,223,461
Capital Asset Purchases	1,057,008	680,906
Depreciation	(4,119,333)	(4,047,037)
Repayment of Debt	22,855,000	7,930,000
Other Postemployment Benefits	(227,194)	(367,265)
Other - Net	1,255,530	1,164,671
Change in Net Assets - Governmental Activities	<u>\$ 8,350,628</u>	<u>\$ 7,584,736</u>

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

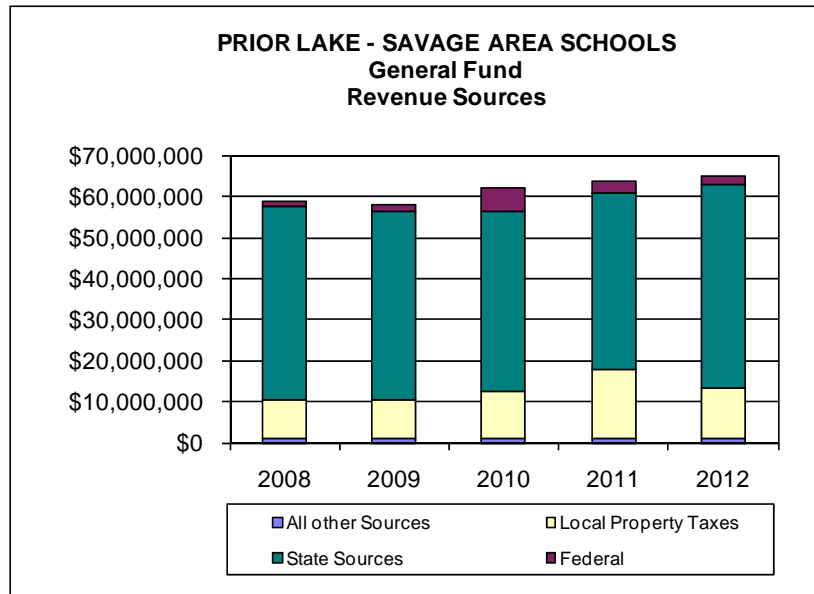


	2008	2009	2010	2011	2012
Pre-K and KH	84.64	81.59	71.31	67.25	60.59
Reg Kindergarten	450.27	452.00	437.90	418.41	422.40
Elementary	3,263.80	3,223.81	3,248.92	3,195.36	3,223.68
Secondary	3,020.17	3,118.94	3,217.72	3,341.13	3,408.90
Net ADM Served	<u>6,818.88</u>	<u>6,876.34</u>	<u>6,975.85</u>	<u>7,022.15</u>	<u>7,115.57</u>
Percent Change		3.01%	0.84%	1.45%	0.66%
					1.33%

As noted in the above chart, the District's student count for fiscal 2011-2012 was 93 students (or 1.33%) 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.

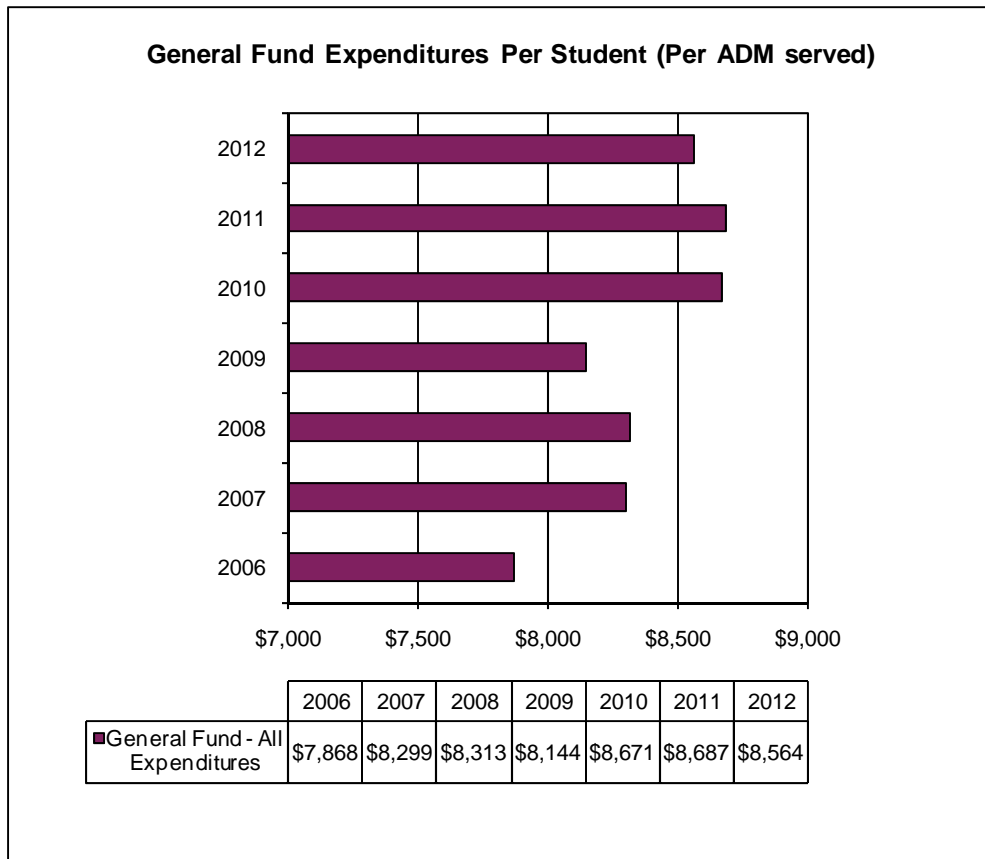
	2008	2009	2010	2011	2012
Local Property Taxes	\$ 9,140,351	\$ 9,481,278	\$ 11,541,847	\$ 16,845,508	\$ 12,257,658
State Sources	47,050,307	45,864,786	43,572,121	43,122,773	49,714,235
Federal Sources	1,285,662	1,369,312	6,012,928	2,800,308	1,946,676
All Other Sources	1,219,491	1,108,958	1,083,934	959,938	1,006,845
Total Revenues	\$ 58,695,811	\$ 57,824,334	\$ 62,210,830	\$ 63,728,527	\$ 64,925,414

	2008	2009	2010	2011	2012
Local Property Taxes	16%	17%	18%	26%	19%
State Sources	80%	79%	70%	68%	77%
Federal Sources	2%	2%	10%	4%	3%
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

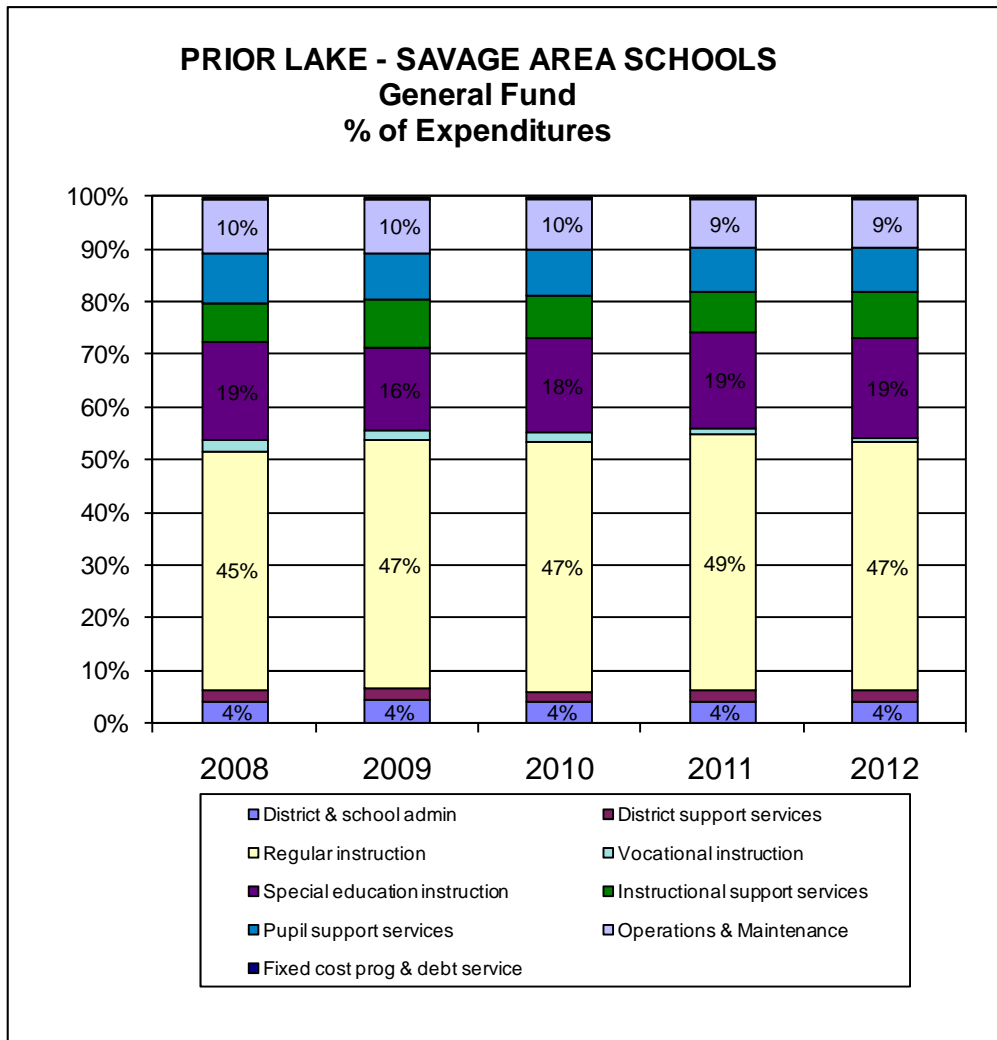
Expenditures per student (average daily membership) are summarized in the following graph:



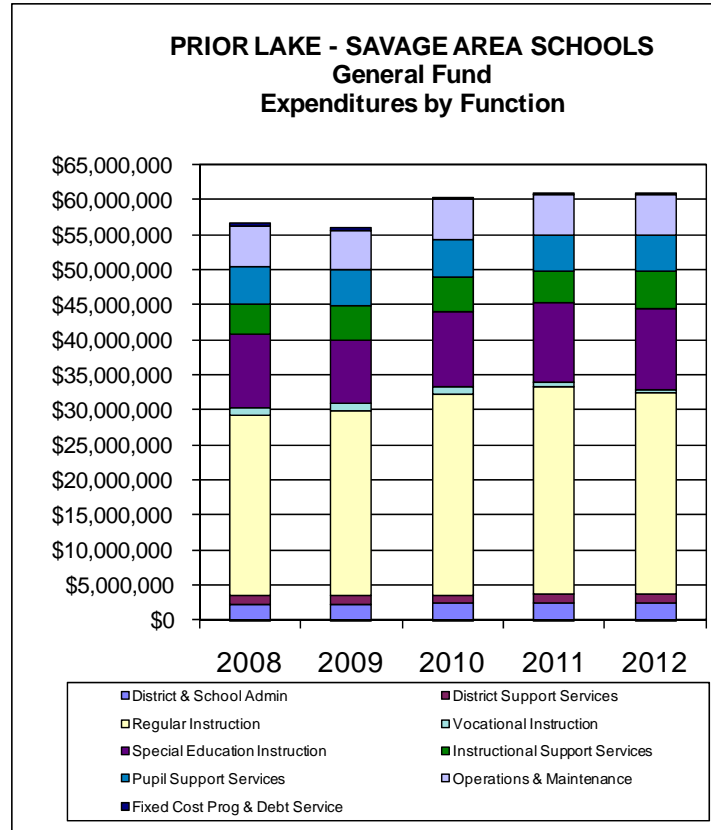
The District expended just \$17 more per student served in fiscal 2011 than it had for fiscal 2010. This is the result of significant cost containment measures that were undertaken by the District for fiscal 2011. Further cost reduction measures were implemented for fiscal 2012.

Expenditures Per Student (Continued)

The following schedule shows total expenditures of the General Fund by program type:



Expenditures Per Student (Continued)



	2008	2009	2010	2011	2012
District and School Admin	\$ 2,349,193	\$ 2,348,936	\$ 2,444,355	\$ 2,547,660	\$ 2,535,087
District Support Services	1,221,911	1,284,847	1,181,184	1,138,869	1,168,207
Regular Instruction	25,742,398	26,376,551	28,606,885	29,723,873	28,711,128
Vocational Instruction	1,140,242	1,004,953	1,092,029	640,500	586,156
Special Education Instruction	10,496,307	8,903,995	10,801,632	11,323,654	11,476,531
Instructional Support Services	4,304,118	5,060,615	4,890,617	4,518,027	5,392,618
Pupil Support Services	5,265,643	5,019,368	5,363,719	5,115,598	5,126,464
Operations and Maintenance	5,777,803	5,750,428	5,896,173	5,786,736	5,718,256
Fixed Cost Prog and Debt Service	390,813	250,844	213,604	209,054	221,525
Total Expenditures	\$ 56,688,428	\$ 56,000,537	\$ 60,490,198	\$ 61,003,971	\$ 60,935,972

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

	2012				2011	2010
	Final Amended Budget	Actual	Over (Under) Budget	%	Actual	Actual
Salaries	\$ 36,072,621	\$ 35,387,522	\$ (685,099)	-1.9%	\$ 36,073,407	\$ 36,575,861
Employee Benefits	14,446,047	14,498,199	52,152	0.4%	15,057,337	13,714,214
Purchased Services	7,103,476	6,489,560	(613,916)	-8.6%	6,471,986	6,501,815
Supplies and Materials	2,898,525	2,363,932	(534,593)	-18.4%	1,775,243	2,085,488
Capital Expenditures	1,949,664	2,072,300	122,636	6.3%	1,490,151	1,507,335
Other Expenditures	105,075	124,459	19,384	18.4%	135,831	105,485
Total Expenditures	\$ 62,575,408	\$ 60,935,972	\$ (1,639,436)	-2.6%	\$ 61,003,955	\$ 60,490,198

On a net basis, total expenditures were 2.6% 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,				
	2008	2009	2010	2011	2012
Revenues	\$ 58,695,811	\$ 57,824,334	\$ 62,210,830	\$ 63,728,527	\$ 64,925,414
Expenditures	56,688,428	56,000,537	60,490,198	61,003,955	60,935,972
Excess of Revenues Over Expenditures	2,007,383	1,823,797	1,720,632	2,724,572	3,989,442
Other Financing Sources:					
Sale of Capital Assets	845	-	-	-	-
Excess of Revenues and Other Financing Sources Over Expenditures	2,008,228	1,823,797	1,720,632	2,724,572	3,989,442
Fund Balance:					
Beginning of Year	(896,983)	1,111,245	2,935,042	4,655,674	7,380,246
End of Year	\$ 1,111,245	\$ 2,935,042	\$ 4,655,674	\$ 7,380,246	\$ 11,369,688
Nonspendable Fund Balance	\$ -	\$ -	\$ 306,875	\$ 234,241	\$ 343,268
Restricted Fund Balance	577,245	1,131,115	1,157,355	1,774,958	2,419,865
Assigned Fund Balance	-	-	2,019,443	4,199,715	4,481,225
Unassigned Fund Balance	534,000	1,803,927	1,172,001	1,171,332	4,125,330
Total Fund Balance	\$ 1,111,245	\$ 2,935,042	\$ 4,655,674	\$ 7,380,246	\$ 11,369,688
Unassigned Fund Balance as a Percentage of Expenditures	0.94%	3.22%	1.94%	1.92%	6.77%

The District's General Fund had revenues and other financing sources over expenditures of \$3,989,442 for fiscal 2012, increasing total fund balance to \$11,369,688 at June 30, 2012. Total fund balance includes a net of \$2,419,865 in restricted accounts, \$343,268 in nonspendable accounts, \$4,481,225 in Board-assigned accounts as prescribed by state statute. That leaves an unassigned fund balance of \$4,125,330 at year-end, which is 6.77% of total General Fund expenditures.

The increase in total revenue from fiscal 2011 to fiscal 2012 of \$1.2 million can be primarily attributed to enrollment growth.

General Fund expenditures for fiscal 2012 were \$60,935,972 which represents a decrease of \$67,983 or 0.11% from fiscal 2011.

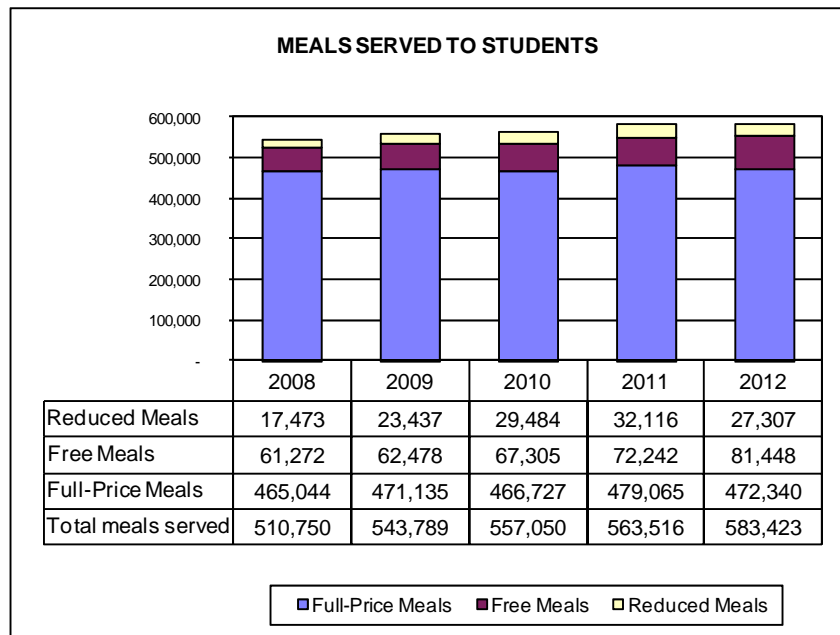
Food Service Fund

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

	Year Ended June 30,				
	2008	2009	2010	2011	2012
Revenues	\$ 2,972,145	\$ 3,070,285	\$ 3,183,682	\$ 3,201,739	\$ 3,312,294
Expenditures	2,953,601	3,007,713	3,242,145	3,200,893	3,297,668
Excess (Deficiency) of Revenues Over (Under) Expenditures	18,544	62,572	(58,463)	846	14,626
Fund Balance:					
Beginning of Year	367,420	385,964	448,536	390,073	390,919
End of Year	\$ 385,964	\$ 448,536	\$ 390,073	\$ 390,919	\$ 405,545
Lunches Served to Students	543,789	557,050	563,516	583,423	581,095
Revenue per Lunch Served	\$ 5.47	\$ 5.51	\$ 5.65	\$ 5.49	\$ 5.70

Total revenues exceeded total expenditures by \$14,626 in the District's Food Service Fund for 2012, increasing fund balance to \$405,545 at June 30, 2012. The ending fund balance represents 12.3% 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 \$47,094 while total expenditures were \$33,298 more than the budgeted amount. The net impact of these variances was to increase the fund balance of the Food Service Fund by \$13,796 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:



Community Service Fund

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

	Year Ended June 30,				
	2008	2009	2010	2011	2012
Revenues	\$ 3,939,560	\$ 3,899,357	\$ 4,262,174	\$ 4,606,528	\$ 4,932,936
Expenditures	3,713,547	4,020,207	4,243,135	4,387,145	4,582,419
Excess (Deficiency) of Revenues Over (Under) Expenditures	226,013	(120,850)	19,039	219,383	350,517
Fund Balance:					
Beginning of Year	650,636	876,649	755,799	774,838	994,221
End of Year	\$ 876,649	\$ 755,799	\$ 774,838	\$ 994,221	\$ 1,344,738
Fund Balance:					
Nonspendable	\$ -	\$ -	\$ 1,577	\$ 5,690	\$ 3,433
Restricted for Community Ed	795,179	683,725	605,455	777,349	1,075,740
Restricted for ECFE	39,543	38,226	117,867	129,065	126,578
Restricted for School Readiness	8,624	17,666	33,414	80,953	124,160
Restricted for Other Purposes	-	-	16,525	1,164	14,827
Unreserved / Undesignated	33,303	16,182	-	-	-
Total Fund Balance	\$ 876,649	\$ 755,799	\$ 774,838	\$ 994,221	\$ 1,344,738

The District's Community Service Fund had an excess of revenue and other financing sources over expenditures of \$350,517 for fiscal 2012, bringing the combined fund balance to \$1,344,738 at June 30, 2012. Total revenue was more than the final budgeted amount by \$277,920 while total expenditures were \$514,405 less than the budgeted amount. The net impact of these variances was to increase the fund balance of the Community Service Fund by \$792,325 more 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

Expenditures Per Student (ADM) Served

	Statewide			ISD No. 719		
	All	Seven County	Enrollment	Prior Lake - Savage Area Schools		
	Districts	Metro Area	> than 4,450	2010	2011	2012
	2011	2011	2011			
District and School Admin and Support Services	\$ 851	\$ 787	\$ 774	\$ 513	\$ 516	\$ 510
Regular Instruction (including Co- & Extra-Curricular)	4,808	5,107	4,979	4,035	4,155	3,941
Vocational Instruction (Career & Technical)	134	136	136	156	91	82
Special Education Instruction	1,844	2,015	2,020	1,536	1,594	1,597
Instructional Support Services	435	526	516	692	633	675
Pupil Support Services (excluding Transportation)	276	324	322	279	241	311
Pupil Transportation	593	613	601	489	484	404
Operations & Maintenance and Other	797	765	767	749	718	690
Food Service	466	469	462	460	447	455
Community Service	498	623	597	596	615	629
Capital Expenditure (excluding Building Constr Fund)	505	419	405	232	225	304
Debt Service	1,102	1,230	1,197	2,147	1,977	1,945
Total Pre-K - 12 Operating Expenditures	<u>\$ 12,309</u>	<u>\$ 13,014</u>	<u>\$ 12,776</u>	<u>\$ 11,884</u>	<u>\$ 11,695</u>	<u>\$ 11,542</u>
Percent Change from Prior Year				5.18%	-1.59%	-1.30%

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.

General Education Revenue - Formula Allowance

The 2011 Legislature modified the basic formula allowance beginning in fiscal year 2012. The basic formula allowance remained at \$5,124 per pupil unit for fiscal year 2011 and then was increase \$50 (1%) for fiscal years 2012 and 2013 (\$5,174 and \$5,224, respectively). The 2012 Legislature did not change the basic formula allowance.

No changes were made in the calculation of adjusted marginal cost pupil units--grade level pupil unit weightings and the 77% current year / 23% prior year marginal cost pupil unit calculations for declining enrollment schools remain unchanged.

Staff Development Reserve

The staff development reserve that had already been temporarily suspended for fiscal years 2010 and 2011 was also suspended for fiscal years 2012 and 2013. The staff development reserve is equal to two percent of the district's basic general education revenue.

Aid Payment Shifts and Property Tax Shifts

In 2011, the State of Minnesota increased the withholding of state aid payments to school districts and charter schools as a mechanism for balancing their budget. The holdback was increased from 30% to 40% for fiscal year 2012.

In addition to increasing the holdback, the State also changed the metering of payments to charter schools for fiscal year 2012. Charter schools now receive their 60% payments over 16 payments from July through February. There are no payments made for the period March through June. The charter schools then receive 75% of the remaining 40% holdback on July 15th and the final 25% of the holdback on October 30.

Fund Transfers

Continues for two more years the authority for a school district to transfer funds and accounts from funds other than the Food Service and Community Service Fund so long as such fund or account transfers do not increase a local levy or impose an added state aid obligation.

Community Education, School Readiness and ECFE Fund Balances

The 25% limit on Community Education, School Readiness, and ECFE fund balances was eliminated.

Pay Differential for Reserve on Active Duty

Minnesota's Pay Differential Program was modified for school employees who, as members of the National Guard or other Reserves, are ordered into active military service. The requirement for salary differential pay by school districts was changed by requiring a district to pool its salary savings from the positions of all its deployed employees, including from the positions of not to be eligible for a pay differential payment and pay salary differentials for all eligible employees. Funds remaining at the end of the year may then be used to pay for substitutes for the deployed employees. Under current law, such pay is available to the employee only if the person's salary as a service member is less than the person's salary as a public employee and only by the amount of a salary differential up to the amount of savings it accrues for an employee's specific position, after hiring a replacement (i.e., often resulting in a partial payment).

Facilities

The levy authority for school districts that are members of that TIES joint powers board was extended for another 11 years (these districts may levy a total of up to \$632,000 per year for building and land improvements).

A school district is authorized to use the building lease levy authority for leases of administrative space (under current law, the levy authority is limited to instructional space). Requires a school district to demonstrate to the commissioner's satisfaction that the lease for administrative space is more cost-effective than a lease for additional instructional space.

Purchase of Food Service Equipment

The requirement for MDE to approve capital expenditures for the purchase of food service equipment from the Food Service Fund instead of the General Fund was deleted effective for purchases made on or after July 1, 2012.

The requirement that the unassigned balance in the Food Service Fund at the end of the last fiscal year must be greater than the cost of the equipment to be purchased from the Food Service Fund was retained.

Nonpublic Pupil Aid

The use of nonpublic pupil textbook aid was expanded to include "software or other educational technology." There was no change in the amount of aid, but additional uses were added. Software and other educational technology must not be used in religious courses, devotional exercises, religious training or any other religious activity.

The state reimburses school districts for their costs up to the amount of the statewide average public school qualifying expenditure per pupil times the number of nonpublic school pupils served by each school district. For fiscal year 2013, the reimbursement rates are set at \$80.33 for textbooks, standardized tests and individualized instructional materials.

Settlement Disclosures

The conditions under which a school district or other political subdivision must disclose an agreement or buyout over \$10,000 was modified. Statute specifies that the complete terms of the agreement are public data and statute clarifies that data relating to a complaint or charge against a school district management employee are public if the complaint or charge results in disciplinary action or the employee resigns or terminated from employment while the complaint or charge is pending.



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APPENDIX D

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 Independent School District No. 719 (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 20, 2012. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated April 25, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

**Our responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133
(continued)**

2. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.
3. We are also responsible for communicating Minnesota Legal Compliance.

Planned scope and timing of the audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 7, 2011.

Significant audit findings

Qualitative aspects of accounting practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 2011-12. 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 2012 is not finalized until well into fiscal year 2013. 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.

Qualitative aspects of accounting practices (continued)

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 2011-12. 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.

The disclosures in the financial statements 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.

Corrected and uncorrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as 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. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2012.

Management consultations with other independent accountants

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

Other information in documents containing audited financial statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, 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 October 20, 2012.

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 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.

Other audit findings or issues

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

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

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 20, 2012

APPENDIX E

INDEPENDENT AUDITORS' REPORT ON CONDENSED FINANCIAL STATEMENTS INCLUDED HEREIN

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

We have audited the financial statements of Independent School District No. 719 (the District) as of and for the year ended June 30, 2012 (not presented herein). These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The condensed Statements of Revenues, Expenditures and Changes in Fund Balance for the year, 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.

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 conformity with U.S. generally accepted accounting principles, 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
October 20, 2012