CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

September 29, 2017

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

A member of
Nexia
International

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

## EXECUTIVE AUDIT SUMMARY (EAS)

## JUNE 30, 2017

**PRIOR LAKE-SAVAGE AREA SCHOOLS**
**INDEPENDENT SCHOOL DISTRICT NO. 719**
**TABLE OF CONTENTS**
**JUNE 30, 2017**

# EXECUTIVE AUDIT SUMMARY (EAS)
# FOR
# PRIOR LAKE-SAVAGE AREA SCHOOLS
# YEAR ENDED JUNE 30, 2017

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, 2017.

**Audit Opinion** – The District's financial statements are fairly stated. We issued what is known as a "clean" or unmodified 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 District.

**Internal Controls** – A material weakness in internal controls over financial reporting was reported for reliance on CliftonLarsonAllen for the drafting of the financial statements.

**Single Audit** – As part of the Single Audit we tested the District's compliance with requirements of the major federal programs (Special Education). The District complied with all direct and material requirements.

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

**Enrollment** – For fiscal 2016-2017 Prior Lake-Savage Area Schools served an estimated total adjusted average daily membership of 8,384.83 (or 9,185.67 adjusted pupil units). For fiscal 2015-2016, Prior Lake-Savage Area Schools had an estimated total adjusted average daily membership of 7,962.36 (or 8,742.24 adjusted pupil units).

**Fund Balance** – The School's General Fund unassigned fund balance for UFARS reporting purposes increased by $989,958 during fiscal year 2017, increasing from $7,633,308 to $8,623,266. Total fund balance of the General Fund increased by $2,885,333, ending at $15,488,992 as of June 30, 2017. The total ending unassigned fund balance represents 10.1% 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 continued to do a commendable job of financial planning and reacting to enrollment changes and changes in state funding.

**Budget to Actual** – Total revenues on a net basis in the General Fund were $2,522,269 (or 2.9%) higher than the budgeted amount while total expenditures were $771,723 (or 0.9%) lower than had been budgeted. The net effect was an increase in total fund balance that was $3,293,992 more than had been reflected in the District's budget. The majority of the expenditure budget variance relates to capital outlay timing differences as well as unexpended amounts that are subject to site carryover.

**OPEB Internal Service Fund** – The District's OPEB Revocable Trust Internal Service fund has not reimbursed the District's governmental funds for the cost of other postemployment benefits paid to retirees by those funds for the past four years. An internal service fund should only be used to account for activity that is charged to funds on a cost reimbursement basis. A significant and growing surplus over time is incompatible with the cost-reimbursement character of the fund type. We recommend the District evaluate its treatment of and plans for this fund going-forward.

## I. FINANCIAL RESULTS

# PRIOR LAKE-SAVAGE AREA SCHOOLS

## AUDITED FUND BALANCES THROUGH JUNE 30, 2017

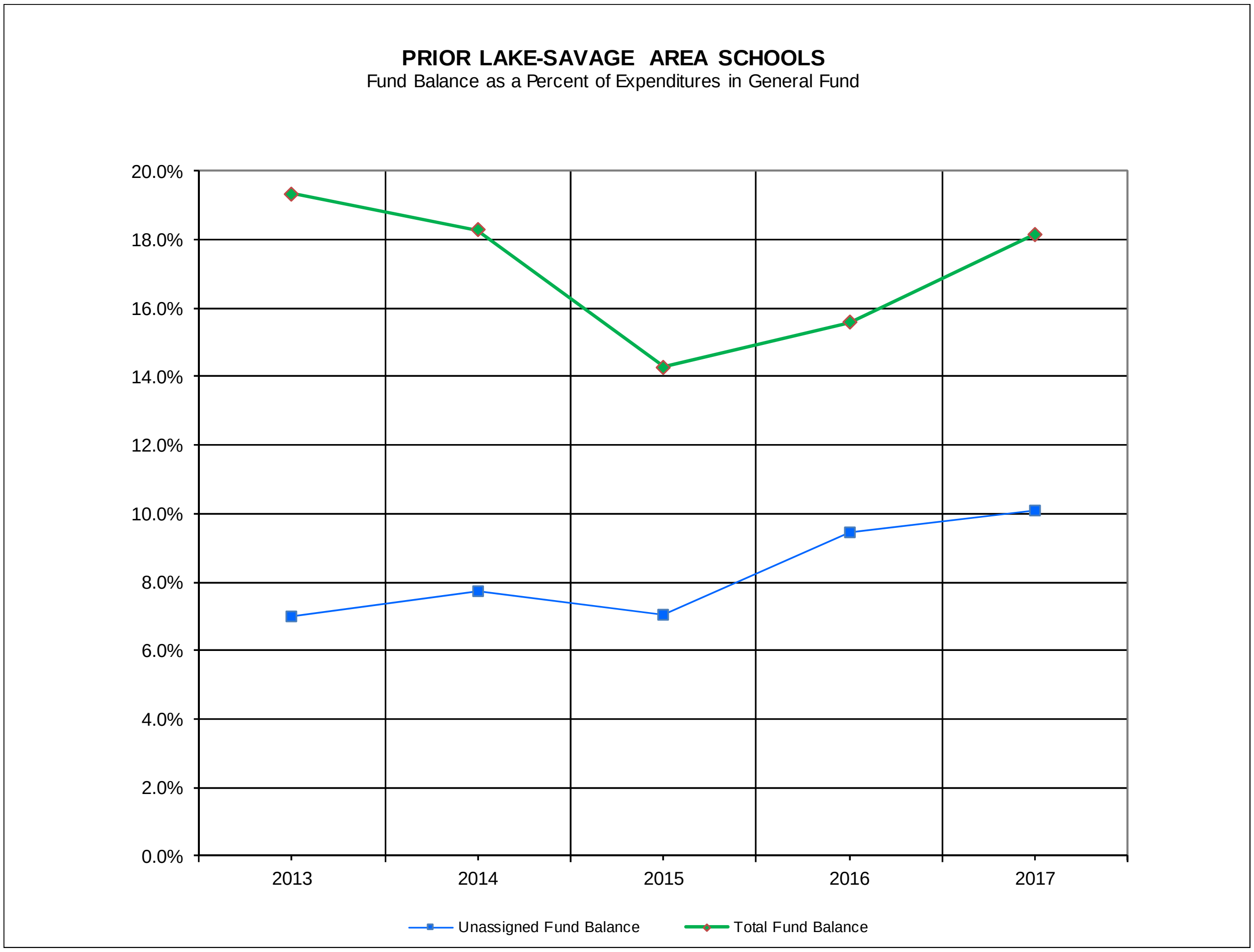
| FUND DESCRIPTION | 6/30/16 AUDITED BALANCE | 2016-17 AUDITED REVENUES | 2016-17 AUDITED EXPENDITURES | TRANSFERS OUT OF FUNDS | 6/30/17 AUDITED BALANCE |
|---|---|---|---|---|---|
| **GENERAL FUND** | | | | | |
| **A. UNASSIGNED - OPERATING** | $7,633,308 | $79,183,148 | $77,910,216 | ($282,974) | $8,623,266 |
| As a percentage of current year expenditures | 9.4% | | | | 10.1% |
| **B. NONSPENDABLE FOR** | | | | | |
| PREPAIDS | $158,190 | $22,849 | $0 | | $181,039 |
| INVENTORY | $102,183 | $0 | $6,649 | | $95,534 |
| TOTAL NONSPENDABLE | $260,373 | $22,849 | $6,649 | $0 | $276,573 |
| **C. ASSIGNED FOR** | | | | | |
| SPECIAL EDUCATION STIMULUS | $173,010 | $0 | $173,010 | | $0 |
| CASHFLOW | $1,722,500 | $0 | $0 | | $1,722,500 |
| CLASS-SIZE REDUCTION | $500,000 | $0 | $0 | | $500,000 |
| INNOVATION DOLLARS | $500,000 | $0 | $80,000 | | $420,000 |
| Q-COMP | $287,914 | $125,840 | $0 | | $413,754 |
| SITE CARRYOVER | $193,602 | $341,154 | $0 | | $534,756 |
| TOTAL ASSIGNED | $3,377,026 | $466,994 | $253,010 | $0 | $3,591,010 |
| **D. RESTRICTED FOR** | | | | | |
| STAFF DEVELOPMENT | $107,406 | $1,114,592 | $995,651 | $0 | $226,347 |
| MEDICAL ASSISTANCE | $0 | $211,516 | $211,516 | $0 | $0 |
| DEFERRED MAINTENANCE | $12,622 | $0 | $12,622 | $0 | $0 |
| LONG-TERM FACILITIES MAINTENANCE | $0 | $1,199,814 | $459,809 | $0 | $740,005 |
| OPERATING CAPITAL | $1,238,529 | $2,405,176 | $2,091,959 | $0 | $1,551,746 |
| HEALTH & SAFETY | ($171,312) | $390,932 | $0 | $0 | $219,620 |
| LEARNING AND DEVELOPMENT | $0 | $1,865,438 | $1,865,438 | $0 | $0 |
| GIFTED AND TALENTED | $0 | $119,414 | $119,414 | $0 | $0 |
| BASIC SKILLS | $0 | $638,214 | $694,441 | $56,227 | $0 |
| CAREER AND TECHNICAL | $0 | $89,695 | $316,442 | $226,747 | $0 |
| SAFE SCHOOLS | $145,707 | $313,418 | $351,655 | $0 | $107,470 |
| ACHIEVEMENT AND INTEGRATION | $0 | $168,970 | $16,015 | $0 | $152,955 |
| TOTAL RESTRICTED | $1,332,952 | $8,517,179 | $7,134,962 | $282,974 | $2,998,143 |
| BUDGET | | $85,667,901 | $86,076,560 | $0 | $12,195,000 |
| **TOTAL GENERAL FUND** | **$12,603,659** | **$88,190,170** | **$85,304,837** | **$0** | **$15,488,992** |
| DIFFERENCE | | $2,522,269 | ($771,723) | $0 | $3,293,992 |
| % VARIANCE | | 2.94% | -0.90% | | |

# AUDITED FUND BALANCES THROUGH JUNE 30, 2017

| FUND DESCRIPTION | 6/30/16 AUDITED BALANCE | 2016-17 AUDITED REVENUES | 2016-17 AUDITED EXPENDITURES | TRANSFERS OUT OF FUNDS | 6/30/17 AUDITED BALANCE |
|---|---|---|---|---|---|
| **FOOD SERVICE** | | | | | |
| NONSPENDABLE FOR INVENTORY | $60,361 | $0 | $2,367 | | $57,994 |
| NONSPENDABLE FOR PREPAID ITEMS | $10,854 | $0 | $670 | | $10,184 |
| RESTRICTED FOR FOOD SERVICE PROG | $730,484 | $4,627,995 | $4,578,646 | | $779,833 |
| BUDGET | | $4,307,379 | $4,512,807 | | $596,271 |
| **FOOD SERVICE** | **$801,699** | **$4,627,995** | **$4,581,683** | **$0** | **$848,011** |
| DIFFERENCE | | $320,616 | $68,876 | | $251,740 |
| % VARIANCE | | 7.44% | 1.53% | | |
| **COMMUNITY EDUCATION** | | | | | |
| NONSPENDABLE FOR PREPAID ITEMS | $27,635 | $2,141 | $0 | $0 | $29,776 |
| **A. RESTRICTED FOR** | | | | | |
| COMMUNITY EDUCATION PROGRAMS | $1,236,296 | $5,284,954 | $5,433,650 | $13,740 | $1,073,860 |
| ECFE PROGRAMS | $278,704 | $516,758 | $434,113 | | $361,349 |
| ADULT BASIC EDUCATION | $151 | $39,284 | $39,435 | | $0 |
| SCHOOL READINESS | $234,370 | $824,071 | $833,601 | | $224,840 |
| OTHER PURPOSES | $0 | $118,098 | $131,838 | ($13,740) | $0 |
| BUDGET | | $6,810,909 | $6,821,530 | $0 | $1,766,535 |
| **TOTAL COMMUNITY EDUCATION** | **$1,777,156** | **$6,785,306** | **$6,872,637** | **$0** | **$1,689,825** |
| DIFFERENCE | | ($25,603) | $51,107 | | ($76,710) |
| % VARIANCE | | -0.38% | 0.75% | | |
| BUDGET | | $12,710,000 | $4,580,000 | $0 | $8,130,000 |
| **TOTAL BUILDING FUND - LTFM** | **$0** | **$12,761,006** | **$1,715,572** | **$0** | **$11,045,434** |
| DIFFERENCE | | $51,006 | ($2,864,428) | $0 | $2,915,434 |
| **DEBT SERVICE** | | | | | |
| OPERATING | $1,780,216 | $12,423,244 | $12,874,182 | $0 | $1,329,278 |
| REFUNDING BONDS | $24,270,000 | $0 | $24,270,000 | $0 | $0 |
| BUDGET | | $12,255,287 | $37,139,483 | $0 | $1,166,020 |
| **TOTAL DEBT SERVICE** | **$26,050,216** | **$12,423,244** | **$37,144,182** | **$0** | **$1,329,278** |
| DIFFERENCE | | $167,957 | $4,699 | $0 | $163,258 |
| % VARIANCE | | 1.37% | 0.01% | | |
| **PROPRIETARY FUNDS** | | | | | |
| OPEB REVOCABLE TRUST | $6,932,039 | $775,928 | $0 | $0 | $7,707,967 |
| SELF-INSURANCE ACCOUNTS | $2,862,477 | $12,468,592 | $11,121,971 | $0 | $4,209,098 |
| **TOTAL PROPRIETARY** | **$9,794,516** | **$13,244,520** | **$11,121,971** | **$0** | **$11,917,065** |
| **TOTAL** | **$51,027,246** | **$138,032,241** | **$146,740,882** | **$0** | **$42,318,605** |

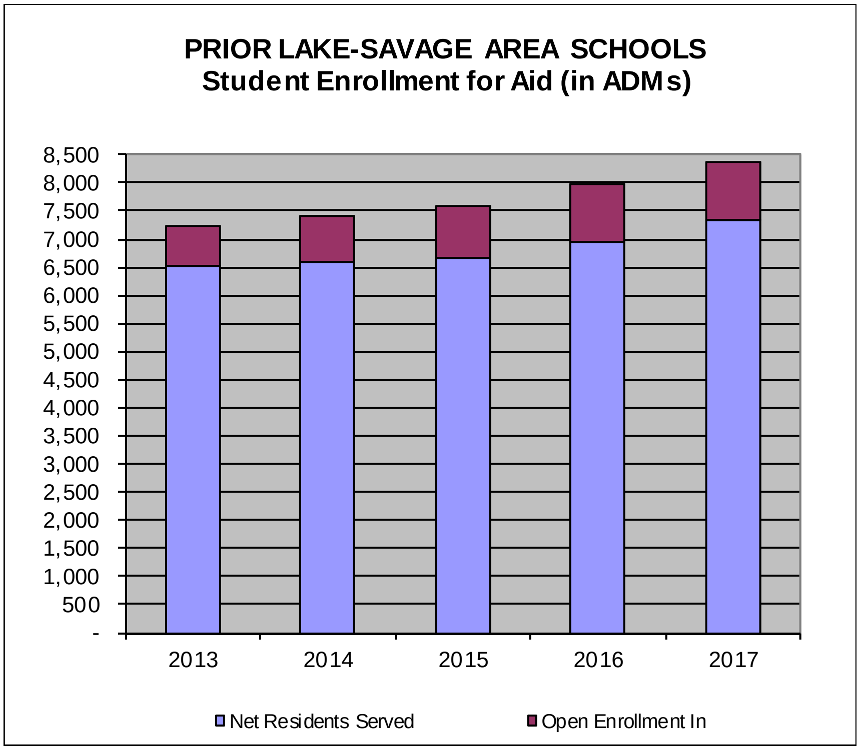
## Fund Balances of the General Fund

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



**Students Served for Aid**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Total Residents | 7,285.27 | 7,387.31 | 7,472.04 | 7,683.53 | 8,079.10 |
| Open Enrollment Out* | (755.61) | (799.29) | (793.24) | (731.29) | (724.18) |
| Net Residents Served | 6,529.66 | 6,588.02 | 6,678.80 | 6,952.24 | 7,354.92 |
| Open Enrollment In | 684.39 | 814.24 | 911.60 | 1,010.12 | 1,029.91 |
| Net ADM Served | 7,214.05 | 7,402.26 | 7,590.40 | 7,962.36 | 8,384.83 |
| * including charter schools | | | | | |
| Net Pupil Units Served | 8,361.19 | 8,580.88 | 8,318.24 | 8,742.24 | 9,185.67 |




As reflected in the above chart and graph, the net impact of open enrollment in the District had been fairly consistent in recent years. Fiscal 2014 was the first time that more non-resident students opted into the District through open enrollment than resident students opting out, including those lost to charter schools and this very positive trend improved dramatically through fiscal 2017.

## 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 represents 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 position, 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, | |
|---|---|---|
| | 2017 | 2016 |
| Total Fund Balance for Governmental Funds | $ 30,401,540 | $ 41,232,730 |
| Capital Assets, Less Accumulated Depreciation | 163,713,569 | 168,261,879 |
| Long-Term Liabilities | (131,515,765) | (151,542,832) |
| Pension Liability related balances | (69,099,666) | (45,551,988) |
| Other - Net | 10,226,435 | 7,838,301 |
| Total Net Position - Governmental Activities | $ 3,726,113 | $ 20,238,090 |
| Net Position: | | |
| Net Investment in Capital Assets | $ 37,303,408 | $ 44,446,753 |
| Restricted | 15,690,859 | 4,087,124 |
| Unrestricted | (49,268,154) | (28,295,787) |
| Total Net Position - Governmental Activities | $ 3,726,113 | $ 20,238,090 |

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 and the District's estimated share of the unfunded portion of statewide pension plans. 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 position. 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 2017 and 2016:

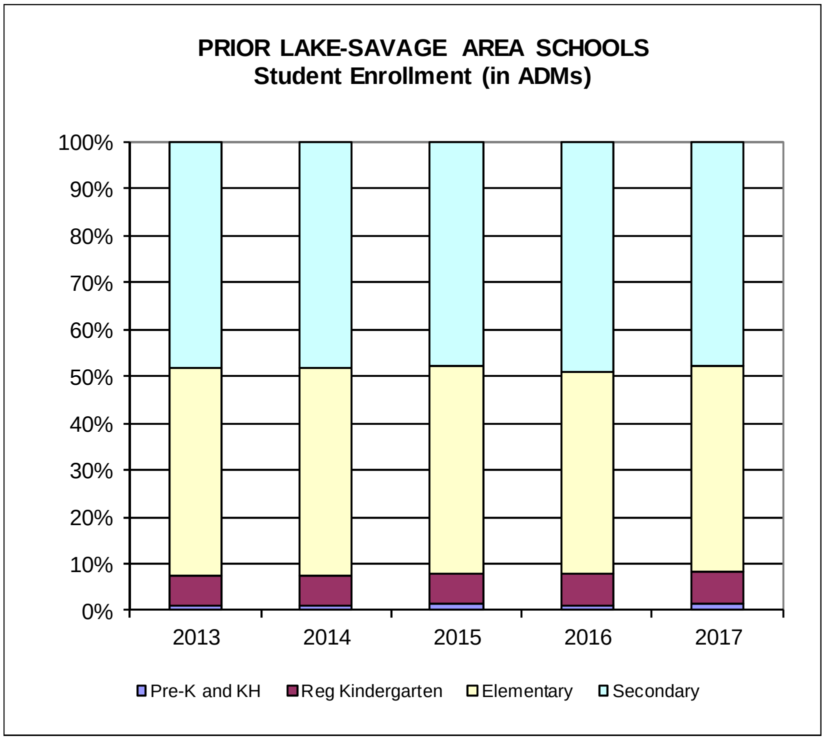
| | Year Ended June 30, 2017 | Year Ended June 30, 2016 |
|---|---|---|
| Net Change in Fund Balance - Total Governmental Funds | $ (10,831,190) | $ 26,379,588 |
| Capital Asset Purchases | 1,384,111 | 2,990,759 |
| Depreciation | (5,932,421) | (5,795,822) |
| Debt Proceeds | (11,480,000) | (21,400,000) |
| Repayment of Debt | 32,440,000 | 7,035,000 |
| Change in Net Pension Liability | (23,658,034) | (658,287) |
| Other Postemployment Benefits | (762,700) | (396,014) |
| Other - Net | 3,514,523 | (806,459) |
| Change in Net Position - Governmental Activities | $ (15,325,711) | $ 7,348,765 |

# 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 F) contains an Independent Auditor's Report on Condensed Financial Statements Included Herein that should be considered when reading such condensed information.

**Student Enrollment**

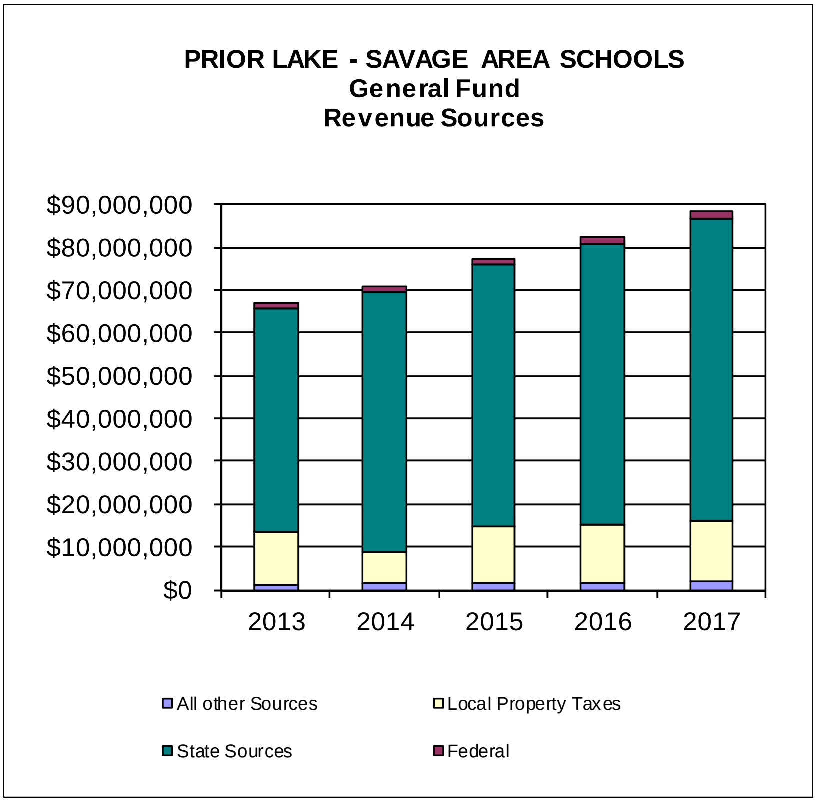



| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Pre-K and KH | 71.79 | 76.25 | 99.67 | 90.53 | 119.70 |
| Reg Kindergarten | 468.28 | 483.03 | 489.03 | 531.53 | 564.30 |
| Elementary | 3,203.45 | 3,274.54 | 3,362.60 | 3,440.93 | 3,696.54 |
| Secondary | 3,470.53 | 3,568.44 | 3,639.10 | 3,899.37 | 4,004.29 |
| Net ADM Served | 7,214.05 | 7,402.26 | 7,590.40 | 7,962.36 | 8,384.83 |
| Percent Change | 1.38% | 2.61% | 2.54% | 4.90% | 5.31% |

As noted in the above chart, the District's student count for fiscal 2016-2017 was 422.47 students (or 5.31%) 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:



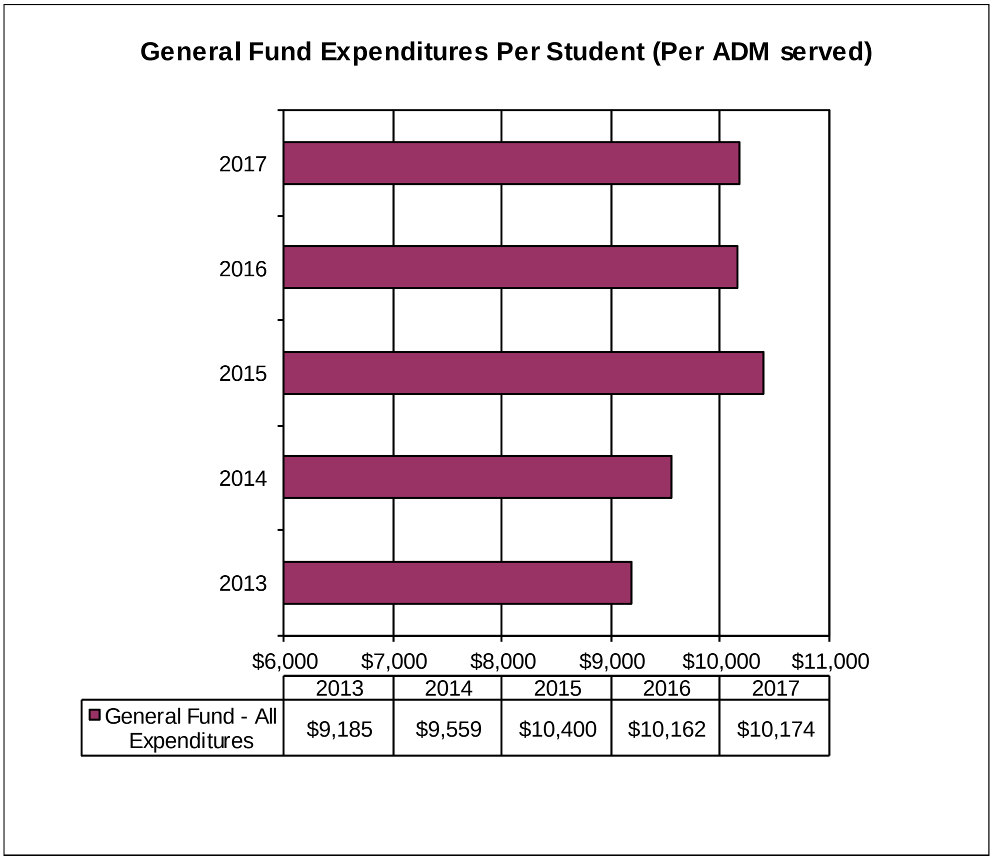

The table below illustrates the fluctuation that occurs between the taxes and state aid categories based on legislative activity. The Legislature determines what portion of the general education funding formula will be paid by local taxpayers. In addition, when the tax shift percentage changes or the 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 2014, the Legislature repaid a total of approximately $5.0 million of the property tax shift buy-down for the General and Community Service Funds, which gives the appearance of a significant decrease in taxes for 2014. For this and other reasons, school finance in Minnesota continues to be a very difficult subject to explain to the general public.

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Local Property Taxes | $ 12,525,925 | $ 7,466,027 | $ 13,063,615 | $ 13,477,228 | $ 14,170,104 |
| State Sources | 51,928,530 | 60,577,804 | 61,166,707 | 65,571,124 | 70,692,619 |
| Federal Sources | 1,625,944 | 1,509,050 | 1,313,872 | 1,663,413 | 1,445,497 |
| All Other Sources | 1,082,083 | 1,330,896 | 1,710,060 | 1,532,053 | 1,881,950 |
| Total Revenues | $ 67,162,482 | $ 70,883,777 | $ 77,254,254 | $ 82,243,818 | $ 88,190,170 |

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Local Property Taxes | 19% | 11% | 17% | 16% | 16% |
| State Sources | 77% | 85% | 79% | 80% | 80% |
| Federal Sources | 2% | 2% | 2% | 2% | 2% |
| All Other Sources | 2% | 2% | 2% | 2% | 2% |
| Total Revenues | 100% | 100% | 100% | 100% | 100% |

## Expenditures Per Student

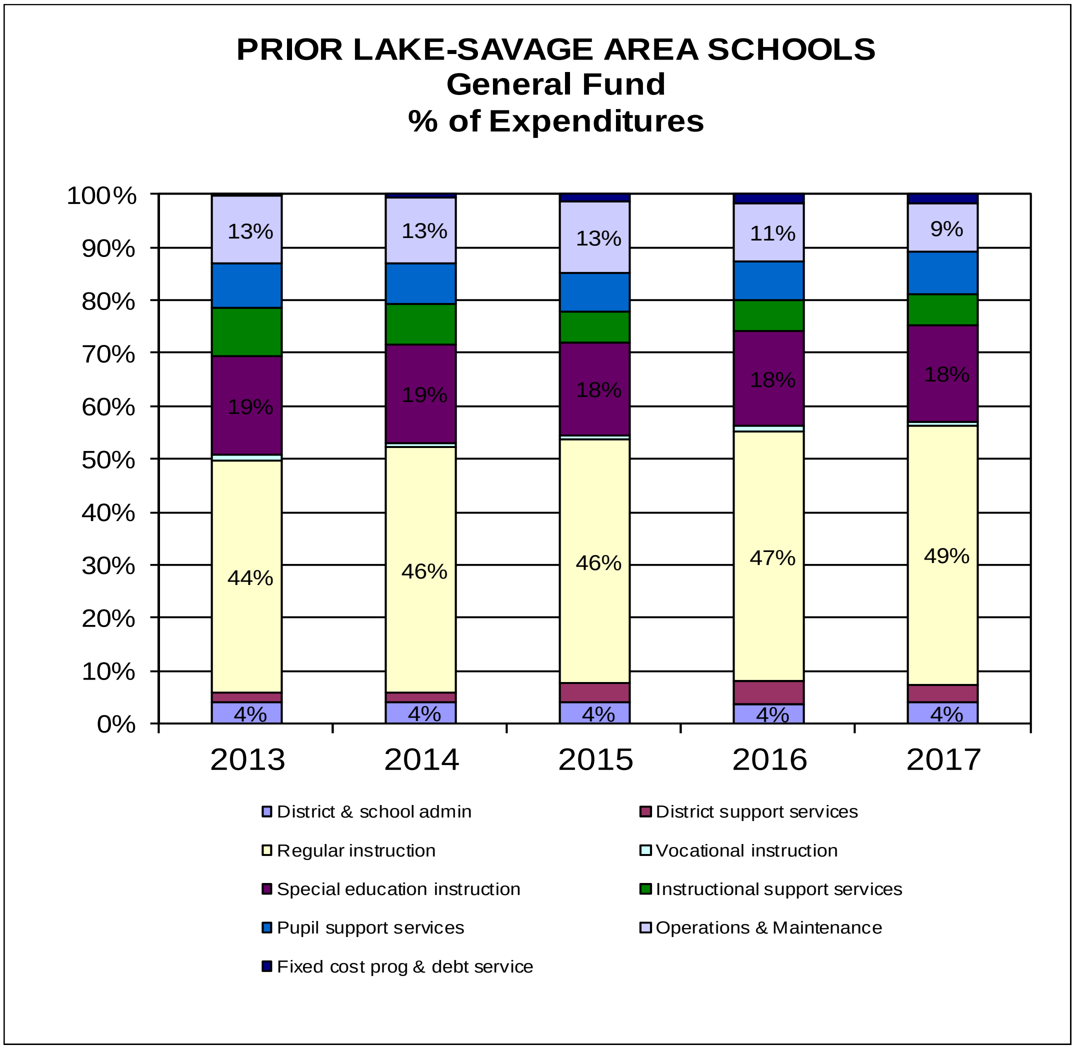
Expenditures per student (average daily membership) are summarized in the following graph:



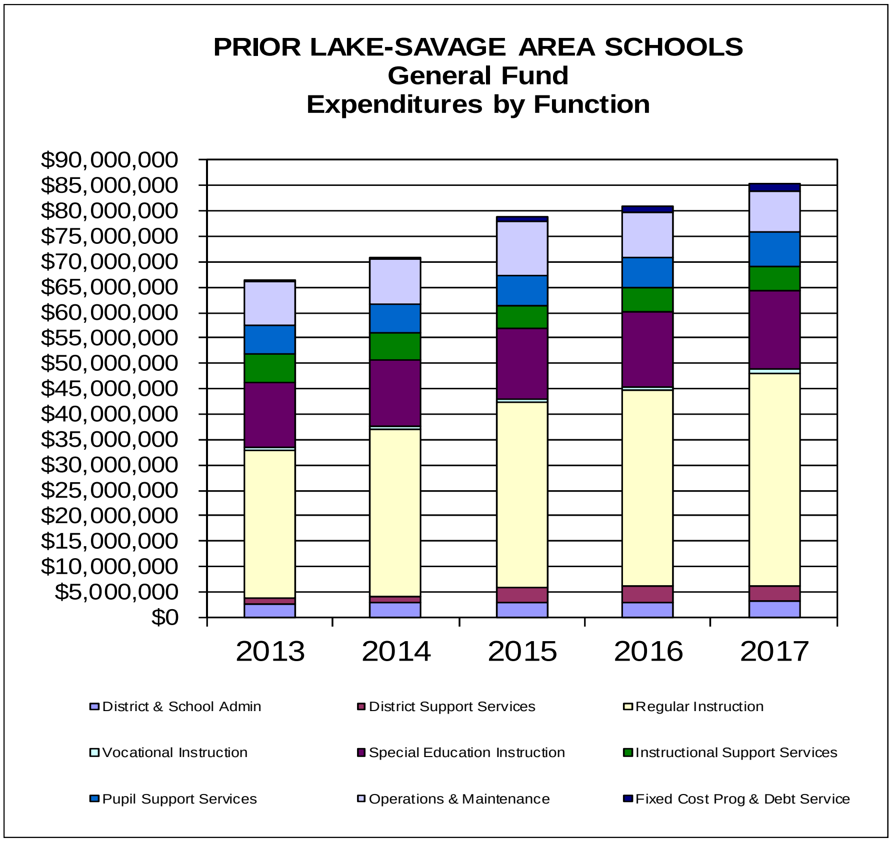

For fiscal 2017, the District expended just $12 more per student served than it had for fiscal 2016. This followed a year when the District expended $238 less per student (or 0.02%) served in fiscal 2016 than it had for fiscal 2015.

**Expendituresx**

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



## Expenditures (Continued)




| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| District and School Admin | $ 2,565,950 | $ 2,833,719 | $ 3,055,111 | $ 2,947,937 | $ 3,290,901 |
| District Support Services | 1,293,734 | 1,295,669 | 2,858,468 | 3,386,416 | 3,002,180 |
| Regular Instruction | 29,098,624 | 32,789,161 | 36,427,518 | 38,404,368 | 41,850,206 |
| Vocational Instruction | 585,877 | 575,454 | 665,893 | 666,499 | 629,187 |
| Special Education Instruction | 12,551,354 | 13,287,188 | 13,912,768 | 14,638,752 | 15,424,027 |
| Instructional Support Services | 5,906,605 | 5,297,931 | 4,528,930 | 4,822,893 | 4,985,570 |
| Pupil Support Services | 5,566,546 | 5,539,546 | 5,872,939 | 5,869,699 | 6,794,084 |
| Operations and Maintenance | 8,480,035 | 8,848,378 | 10,492,273 | 8,866,015 | 8,024,162 |
| Fixed Cost Prog and Debt Service | 214,070 | 292,102 | 1,129,484 | 1,308,903 | 1,304,520 |
| Total Expenditures | $ 66,262,795 | $ 70,759,148 | $ 78,943,384 | $ 80,911,482 | $ 85,304,837 |

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

| | 2017 | | | | 2016 | 2015 |
|---|---|---|---|---|---|---|
| | Final Amended Budget | Actual | Over (Under) Budget | % | Actual | Actual |
| Salaries | $ 49,643,066 | $ 49,608,700 | $ (34,366) | -0.1% | $ 46,172,053 | $ 43,768,311 |
| Employee Benefits | 19,403,490 | 20,052,994 | 649,504 | 3.3% | 18,750,542 | 18,083,290 |
| Purchased Services | 10,251,596 | 9,871,909 | (379,687) | -3.7% | 8,993,952 | 8,362,953 |
| Supplies and Materials | 2,513,013 | 2,114,898 | (398,115) | -15.8% | 2,330,235 | 2,539,509 |
| Capital Expenditures | 3,093,821 | 2,252,800 | (841,021) | -27.2% | 3,527,014 | 5,184,838 |
| Other Expenditures | 1,171,574 | 1,403,536 | 231,962 | 19.8% | 1,137,686 | 1,004,483 |
| Total Expenditures | $ 86,076,560 | $ 85,304,837 | $ (771,723) | -0.9% | $ 80,911,482 | $ 78,943,384 |

On a net basis, total expenditures were within a less than 1% variance from 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, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Revenues | $ 67,162,482 | $ 70,883,777 | $ 77,254,254 | $ 82,243,818 | $ 88,190,170 |
| Expenditures | 66,262,795 | 70,759,148 | 78,943,384 | 80,911,482 | 85,304,837 |
| Excess of Revenues Over Expenditures | 899,687 | 124,629 | (1,689,130) | 1,332,336 | 2,885,333 |
| Other Financing Sources: | | | | | |
| Capital Improvement Loan Proceeds | 547,305 | - | - | - | - |
| Sale of Capital Assets | - | - | 19,144 | - | - |
| Total Other Financing Sources | 547,305 | - | 19,144 | - | - |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures | 1,446,992 | 124,629 | (1,669,986) | 1,332,336 | 2,885,333 |
| Fund Balance: | | | | | |
| Beginning of Year | 11,369,688 | 12,816,680 | 12,941,309 | 11,271,323 | 12,603,659 |
| End of Year | $ 12,816,680 | $ 12,941,309 | $ 11,271,323 | $ 12,603,659 | $ 15,488,992 |
| Nonspendable Fund Balance | $ 454,439 | $ 427,131 | $ 339,077 | $ 260,373 | $ 276,573 |
| Restricted Fund Balance | 2,864,380 | 2,755,472 | 1,584,342 | 1,332,952 | 2,998,143 |
| Assigned Fund Balance | 4,858,093 | 4,281,994 | 3,788,540 | 3,377,026 | 3,591,010 |
| Unassigned Fund Balance | 4,639,768 | 5,476,712 | 5,559,364 | 7,633,308 | 8,623,266 |
| Total Fund Balance | $ 12,816,680 | $ 12,941,309 | $ 11,271,323 | $ 12,603,659 | $ 15,488,992 |
| Unassigned Fund Balance as a Percentage of Expenditures | 7.00% | 7.74% | 7.04% | 9.43% | 10.11% |

The District's General Fund revenues exceeded expenditures by $2,885,333 for fiscal 2017, increasing total fund balance to $15,488,992 at June 30, 2017. Total fund balance includes a net of $2,998,143 in restricted accounts (UFARS basis), $276,573 in nonspendable accounts, and $3,591,010 in Board-assigned accounts as prescribed by state statute. That leaves an unassigned fund balance of $8,623,266 at year-end, which is 10.11% of total General Fund expenditures.

The increase in total revenue from fiscal 2016 to fiscal 2017 of $5.95 million can be primarily attributed to enrollment growth, general education formula improvement of $119 per pupil unit and improved funding related to the state special education program.

General Fund expenditures for fiscal 2017 were $85,304,837 which represents an increase of $4,393,355 or 5.6% from fiscal 2016.

## Food Service Fund

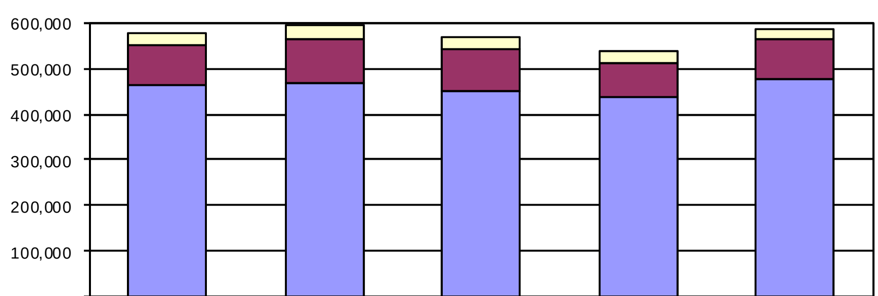
The following chart reflects the growth of the food service program over the past five years:

| | Year Ended 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Revenues | $ 3,494,798 | $ 3,683,212 | $ 3,784,310 | $ 4,374,888 | $ 4,627,995 |
| Expenditures | 3,418,305 | 3,585,921 | 3,779,723 | 4,157,105 | 4,581,683 |
| Excess Revenues Over Expenditures | 76,493 | 97,291 | 4,587 | 217,783 | 46,312 |
| Fund Balance: Beginning of Year | 405,545 | 482,038 | 579,329 | 583,916 | 801,699 |
| End of Year | $ 482,038 | $ 579,329 | $ 583,916 | $ 801,699 | $ 848,011 |
| Lunches Served to Students | 578,670 | 593,215 | 566,799 | 537,633 | 587,072 |
| Revenue per Lunch Served | $ 6.04 | $ 6.21 | $ 6.68 | $ 8.14 | $ 7.88 |

Total revenues exceeded total expenditures by $46,312 in the District's Food Service Fund for 2017, increasing fund balance to $848,011 at June 30, 2017. The ending fund balance represents 18.51% of expenditures (prior year was 19.29%) 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 $320,616 (or 7.4%) while total expenditures were $68,876 (or 1.5%) more than the budgeted amount. The net impact of these variances was to increase the fund balance of the Food Service Fund by $251,740 more than had been reflected in the budget.

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

**MEALS SERVED TO STUDENTS**




| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Reduced Meals | 28,959 | 27,681 | 25,563 | 25,197 | 25,159 |
| Free Meals | 84,820 | 96,313 | 90,276 | 75,685 | 84,126 |
| Full-Price Meals | 464,891 | 469,221 | 450,960 | 436,751 | 477,787 |
| Total Meals Served | 578,670 | 593,215 | 566,799 | 537,633 | 587,072 |

Full-Price Meals    Free Meals    Reduced Meals

### Community Service Fund

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

| | Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Revenues | $ 5,018,840 | $ 5,151,796 | $ 5,002,729 | $ 6,004,092 | $ 6,785,306 |
| Expenditures | 5,114,750 | 5,210,982 | 4,774,965 | 5,644,342 | 6,872,637 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (95,910) | (59,186) | 227,764 | 359,750 | (87,331) |
| Fund Balance: | | | | | |
| Beginning of Year | 1,344,738 | 1,248,828 | 1,189,642 | 1,417,406 | 1,777,156 |
| End of Year | $ 1,248,828 | $ 1,189,642 | $ 1,417,406 | $ 1,777,156 | $ 1,689,825 |
| Fund Balance: | | | | | |
| Nonspendable | $ 3,982 | $ 18,359 | $ 19,561 | $ 27,635 | $ 29,777 |
| Restricted for Community Ed | 1,155,620 | 1,073,797 | 1,153,519 | 1,236,296 | 1,078,822 |
| Restricted for ECFE | 27,864 | 79,266 | 187,340 | 278,696 | 362,133 |
| Restricted for School Readiness | 32,038 | 16,815 | 46,968 | 234,370 | 206,476 |
| Restricted for Adult Basic Ed | - | 1,405 | 1,405 | 151 | - |
| Restricted for Other Purposes | 29,324 | - | 8,613 | 8 | 12,617 |
| Total Fund Balance | $ 1,248,828 | $ 1,189,642 | $ 1,417,406 | $ 1,777,156 | $ 1,689,825 |

The District's Community Service Fund total expenditures exceeded revenues by $87,331 for fiscal 2017, bringing the combined fund balance to $1,689,825 at June 30, 2017. Total revenue was less than the final budgeted amount by $25,603 while total expenditures were $51,107 more than the budgeted amount. The net impact of these variances was to decrease the fund balance of the Community Service Fund by $76,710 more than had been budgeted. 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.

# APPENDIX B

| | Statewide All Districts 2016 | Statewide Seven County Metro Area 2016 | Statewide Enrollment > than 4,000 2016 | ISD No. 719 Prior Lake - Savage Area Schools 2015 | ISD No. 719 Prior Lake - Savage Area Schools 2016 | ISD No. 719 Prior Lake - Savage Area Schools 2017 |
|---|---|---|---|---|---|---|
| District and School Admin and Support Services | $ 1,016 | $ 958 | $ 920 | $ 774 | $ 791 | $ 743 |
| Regular Instruction (including Co- and Extra-Curricular) | 5,428 | 5,849 | 5,665 | 4,767 | 4,793 | 4,942 |
| Vocational Instruction (Career & Technical) | 149 | 146 | 151 | 87 | 83 | 74 |
| Special Education Instruction | 2,179 | 2,330 | 2,357 | 1,821 | 1,827 | 1,821 |
| Instructional Support Services | 606 | 725 | 707 | 593 | 602 | 589 |
| Pupil Support Services (excluding Transportation) | 343 | 414 | 401 | 268 | 261 | 304 |
| Pupil Transportation | 678 | 689 | 671 | 501 | 472 | 499 |
| Operations and Maintenance and Other | 879 | 847 | 850 | 732 | 704 | 716 |
| General Fund Subtotal | 11,278 | 11,958 | 11,722 | 9,541 | 9,532 | 9,688 |
| Food Service | 539 | 539 | 536 | 491 | 505 | 520 |
| Community Service | 550 | 676 | 645 | 621 | 700 | 803 |
| Capital Expenditure (excluding Building Constr Fund) | 677 | 532 | 549 | 686 | 459 | 295 |
| Debt Service | 1,433 | 1,453 | 1,521 | 2,133 | 1,587 | 1,640 |
| Total Pre-K - 12 Operating Expenditures | $ 14,477 | $ 15,158 | $ 14,973 | $ 13,471 | $ 12,783 | $ 12,946 |
| Percent Change from Prior Year | | | | 7.56% | -5.11% | 1.28% |

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 and 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, and the Minnesota House of Representatives.

### Long-Term Facilities Maintenance Revenue (2015 Legislative Session)

Effective for fiscal year 2017, the long-term facilities maintenance revenue program was reestablished in response to the Capital Facilities Work Group recommendations. All school districts were given access to alternative facilities funding so school buildings and grounds can be responsibly and efficiently maintained. School facilities levies and bonds were made more affordable in low-wealth districts by increasing the equalization.

- Establishes the long-term facilities maintenance equalization levy and aid programs.
- Requires that a district or intermediate district have a ten-year facilities maintenance plan adopted by its board and approved by the commissioner.
- Repeals Alternative Facilities Program, Deferred Maintenance Revenue Program and Health and Safety Levy, while retaining a list of allowed expenditures for health and safety revenue.
- Authorizes a district that is a member of an intermediate district or other cooperative unit to levy for its proportionate share of the costs of long-term facilities maintenance costs. Requires approval of each member board and the Commissioner of Education.
- All districts are held harmless in that all districts are guaranteed to receive at least as much revenue and at least as much state aid as they would have received under existing law.

Long-term facilities maintenance revenue may be used for exactly the same purposes as the old revenue categories it replaces: health & safety; deferred maintenance, and alternative facilities. As was true under the old law, Long-Term Facilities Maintenance Revenue <u>may not</u> be used for the following:

1. For construction of new facilities, remodeling of existing facilities, or the purchase of portable classrooms;
2. To finance a lease purchase agreement, installment purchase agreement, or other deferred payments agreement;
3. For energy-efficiency projects under section 123B.65, for a building or property or part of a building or property used for postsecondary instruction or administration or for a purpose unrelated to elementary and secondary education; or
4. For violence prevention and facility security, ergonomics, or emergency communication devices.

### Fund Transfer Extension through FY2017 (2015 Legislative Session)

The authorization for a school district to transfer money among accounts (if the transfer doesn't change the district's state aid or local levy authority) was extended through fiscal 2017. Does not include transfers from the Community Service fund, the Food Service Fund or from the restricted account for staff development.

**APPENDIX C (CONTINUED)**

**Voluntary Pre-Kindergarten Program (2016 Legislative Session)**

A school district, charter school, or combination thereof is authorized to operate a voluntary prekindergarten program for four-year-old pupils to prepare students for kindergarten entry. The school calendar for prekindergarten, if offered by the district, must include at least 350 hours of instruction for the school year. The commissioner is required to proportionally allocate the funds available among four groups of applicants: (1) Minneapolis and Saint Paul; (2) metro-region school districts; (3) rural region school districts; and (4) charter schools. Within each of the four applicant groups, priority is required to be given to applicants based on (1) the concentration of kindergarten students who qualify for free or reduced price lunch, and (2) the availability of three- or four-star Parent Aware rated programs within or near the district. The number of prekindergarten pupil units for a district is limited to no more than 60 percent of that district's kindergarten pupil units. The statewide aid entitlement for the prekindergarten program is limited to $27,092,000 for fiscal year 2017, $27,239,000 in fiscal year 2018, and $26,399,000 for fiscal year 2019 and later which equates to approximately 6.2% of Minnesota four year olds or about 3,700 participants in each of the three years.

**Home Visiting Revenue (2016 Legislative Session)**

The home visiting levy program was modified into a home visiting revenue program. Makes districts that are eligible to levy for early childhood family education eligible to receive home visiting revenue. The amount for home visiting was increased from $1.60 per person under five residing in the district to $3.00 per person under five residing in the district effective for revenue in fiscal year 2018 and later.

**Equity Revenue (2016 Legislative Session)**

The equity revenue bump was extended to all school districts in the state (this increase is currently available only to school districts with their administrative offices located in the metro area). Sets the bump at 16 percent for fiscal years 2017, 2018, and 2019 and 25% for fiscal years 2020 and later. The equity revenue increase is payable entirely in state aid for fiscal year 2017 only.

**Special Education Aid (2016 Legislative Session)**

The Department of Education is required to include procedures in the Uniform Financial and Reporting Standards (UFARS) system to track third-party billing proceeds at the school building level. Requires third-party billing revenue to be included in the cross-subsidy report and excluded from the calculation of special education excess cost aid. Beginning in fiscal 2017, school districts are required to reserve third-party revenue and spend the revenue only for the following purposes: 1) Administrative costs of obtaining reimbursement; 2) Training to improve the district's ability to access third-party payments; 3) Other expenditures to benefit students with IEPs or IFSPs.

The following provisions were part of the "Teacher Shortage Initiatives" from the 2017 legislative session.

**Alternative Teacher Professional Pay System (QComp)**

Allows QComp revenue to be used for the following: (1) hiring bonuses to provide students with equitable access to teachers who have demonstrated skills for being effective at closing achievement gap; working in high-need positions; (2) incentives for teachers to obtain credits for required concurrent enrollment courses; and (3) funding a "Grow Your Own" new teacher initiative.

**Alternative Teacher Preparation Grants Program**

Establishes a $750,000 grant program for alternative teacher programs working to fill teacher shortage areas. School districts, charter schools, or nonprofits may seek approval to run a program. The grant must be used to get approval to become a program; recruit, select and train teachers who reflect the racial or ethnic diversity of students; and establish professional development programs for teachers.

## APPENDIX C (CONTINUED)

### Paraprofessional Pathway to Teacher Licensure

Provides up to $1.0 million for grants, to school districts with more than 30% minority students, for a Board of Teaching-approved, nonconventional, teacher preparation residency program. The program must provide tuition scholarships or stipends to enable school district employees or community members affiliated with the school district who seek an education license to participate. School districts that receive funds under this program are encouraged to recruit candidates of color and American Indian candidates to participate in the "Grow Your Own" new teacher program.

The remainder of items was the result of the 2017 legislative session.

### General Education Formula Increase

The General Education Revenue formula allowance was increased by 2% (by $121 per pupil unit to $6,188) for fiscal year 2018 and by another 2% (by $124 per pupil unit to $6,312) for fiscal year 2019 and later.

### Compensatory Education Pilots

The five pilot compensatory grants totaling $9,268,000 were permanently rolled into the compensatory revenue.

### Restricted Use of Compensatory Education Revenue

There is a new requirement that each school site is required to set aside increases in compensatory revenue relative to fiscal year 2017 for extended time activities. Extended time revenue may be used for extended day or week programs, summer school, vacation break academies, and other programming authorized under the learning year programs (alternative extended day or year programs).

### Pupil Transportation Sparsity Revenue

A new permanent funding component of $3.8 million was created for districts whose pupil transportation expenses greatly exceed their transportation revenue. Funding is set to 18.2 percent of the difference between each school district's transportation costs and the sum of its transportation sparsity revenue. This impacts 85 school districts.

### Payments to Schools for Non-operating Funds

Debt service equalization payments will go from twelve monthly payments to six payments beginning in July. School districts will receive their debt service equalization aid sooner, which better aligns with their payments to bondholders.

### Operating Referendum Notification

Notices to residents are no longer required to be delivered by first class mail.

### Innovation Research Zones Pilot Program

One or more schools may join to form an innovation zone partnership. This partnership can include postsecondary institutions, other units of local government, nonprofit, and for-profit organizations and can include personalized learning, collaborative leadership, and real-world models. An innovation plan must be submitted to MDE and innovation zones can get exemptions from certain state law. This pilot program is initially limited to three innovation zone plans in the seven-county metro and three in greater Minnesota.

### Child Nutrition Exception to Contract Limits

An exception to the rule limiting school district contracts to two years was provided. A contract between a school board and a food service management company may be renewed annually after the initial term, but not more than four additional years.

### E-Learning Days

School boards may offer online instruction due to inclement weather to be counted as a day of instruction. A plan must be developed and adopted by the school board in consultation with teachers. Requirements are: parent notification of the E-Learning Plan at the beginning of each school year; accommodations for students without internet access at home; must not exceed five days; parent notification of at least two hours prior to the normal school start time in which a student needs to participate in an E-Learning Day; and teachers must be accessible online and via telephone during the normal school hours.

### Special Education 3rd Party Reimbursement

Districts must provide notice to a parent of a child enrolled in medical assistance or MinnesotaCare of its intent to seek reimbursement from the public health coverage plan for evaluations required as part of the IEP or family service plan (FSP) process, and for health-related services provided by the district in accordance with the IEP or FSP. A district may enroll as a provider in the medical assistance program and receive medical assistance payments for covered evaluations and special education services provided to persons eligible for medical assistance.

### Early Learning Scholarships

Prioritizes scholarship awards to children who have a parent under age 21 who is pursuing a diploma, are in foster care or need protection, or have experienced homelessness in the previous two years. The Pathway II scholarships were capped to no more than those granted in fiscal year 2017. The date by which a program must have a three-star or four-star rating is delayed by four years to 2020.

### School Readiness Plus (SR+)

A new four-year-old program was created to prepare children for kindergarten. Both school districts and charter schools are authorized to contract for the delivery of an SR+ program. The new School Readiness Program was created for fiscal years 2018 and 2019 only ($50 million for each year). All school district applicants meeting program requirements will be rank-ordered based on three criteria: free and reduced lunch concentration of students in kindergarten as of October 1 of the previous fiscal year; proximity of a three-star or four-star Parent Aware rated program; and whether the district has implemented a mixed delivery program. The cap on the Voluntary PreK program was changed from a limit on the state total aid entitlement to a limit on the number of participants.

### ECFE Funding

The ECFE Allowance remains linked to General Ed formula allowance. ECFE allowance was increased from $139.54 to $142.32 for fiscal year 2018 and $145.18 for fiscal year 2019 and later due to formula allowance increase.

### American Indian Tribal Contract Aid

The maximum aid per pupil unit was continued at the fiscal 2017 level of $3,230 for fiscal years 2018 and 2019 only, instead of allowing it to decrease to $1,500 beginning in fiscal 2018 as provided in current law. The decrease to $1,500 will now occur beginning in fiscal year 2020 unless a change is enacted before that.

### Lead in School Drinking Water

The Commissioner of Health and Education is required to develop a model plan to require school districts to test for lead in school drinking water. School boards may adopt the model plan or develop an alternative plan to test water in the schools for lead. The plan requires testing at least every five years, testing must begin by July 1, 2018, and be completed within five years. School districts are allowed to include the costs for lead testing and remediation in their long-term facilities maintenance plan. School districts must make lead test results available to the public and notify parents that this information is available.

# APPENDIX D

## TECHNICAL UPDATE

### TECHNICAL UPDATES

**GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68**

The issuance of GASB Statement No. 73 completes the suite of pension standards. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). Plans not covered by GASBS No. 68 were previously measured under GASB No. 27. The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016.

**GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**

GASB Statement No. 74 addresses reporting by OPEB plans that administer benefits on behalf of governments and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The provisions in GASB Statement No. 74 are effective for financial statements for fiscal years beginning after June 15, 2016.

**GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**

GASB Statement No. 75 addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB that they provide: Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

GASB 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances—called special funding situations—GASB 75 requires these governments to recognize in their financial statements a share of the other government's net OPEB liability. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

**GASB Statement No. 77 – Tax Abatement Disclosures**

The objective of this Statement is to require governments that enter into tax abatement agreements to disclose information about a reporting government's own tax abatement agreements and information about those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

**GASB Statement No. 79 – Certain External Investment Pools and Pool Participants**

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. In Minnesota, the Board of Trustees of the MSDLAF+ Portfolio approved the adoption of GASB 79 requirements at a meeting held on May 25, 2016. As a result of this adoption, the Board determined that it will manage the MSDLAF+ Portfolio in accordance with GASB 79 requirements, as applicable, for continued use of amortized cost.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

### GASB Statement No. 80 – Component Units

The objective of this Statement requires the blending of component units of not-for-profit (NFP) corporations in which the government is the sole member. This requirement does not apply if the component unit (CU) is included under GASBS No. 39. If a reporting entity's component unit is organized as a NFP corporation in which the primary government is the sole corporate member, as identified in the CU's articles of incorporation or bylaws, the blending method should be used. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

### GASB Statement No. 82 – Pensions

Addresses issues regarding the presentation of payroll-related measures in required supplementary information (RSI), the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee/plan member contribution requirements. Effective for reporting periods beginning after June 15, 2016 or June 15, 2017 for the requirements associated with assumptions where the pension liability measurement date is other than the most recent year-end. This statement impacts clients who report pension information in accordance with GASB Statements No. 67, No. 68, and No. 73.

CliftonLarsonAllen LLP
CLAconnect.com

# 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 District) as of and for the year ended June 30, 2017, and have issued our report thereon dated September 29, 2017. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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***

<u>*Accounting policies*</u>

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.

As described in Note 1, during the fiscal year ended June 30, 2017, the District changed accounting policies related to its accounting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement 73 established requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). Plans not covered by GASBS No. 68 were previously measured under GASB No. 27. The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68.

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

A member of Nexia International

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

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
- Estimated proportionate share of PERA's and TRA's net pension liability

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 2017. The most significant of these is the aid portion of General education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a statewide database Minnesota Automated Reporting Student System (MARSS). Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2017 is not finalized until well into the next fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from 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 2017. Many federal entitlements require that supporting financial reporting information be provided both in the Uniform Financial Accounting and Reporting Standards (UFARS) accounting system and also the 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. 73.

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

*Accounting estimates (continued)*

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.

Management's estimate of the District's proportionate share of PERA's and TRA's Net Pension Liability is based on guidance from GASB Statements No. 68 and each plan's respective allocation tables. Each plan's allocation tables allocate a portion of the plan's net pension liability based on the District's prior fiscal year contributions as a percentage of the total contributions received for the related year by the plan.

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 September 29, 2017.

***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 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 the Uniform Guidance, 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 September 29, 2017.

**Other information in documents containing audited financial statements (continued)**

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 September 29, 2017.

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
September 29, 2017