CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

October 27, 2014

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

This Executive Audit Summary and Management Report presents information which we believe is important to you as members of the School Board. We encourage you to review the sections of this report, the audited financial statements and the auditor's reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the School for the courtesies, cooperation and assistance extended to us during the course of our work.

CliftonLarsonAllen LLP

Dennis Hoogeveen

Dennis Hoogeveen, CPA
Principal

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

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2014

PRIOR LAKE-SAVAGE AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 719
TABLE OF CONTENTS
JUNE 30, 2014

EXECUTIVE AUDIT SUMMARY (EAS)
FOR
PRIOR LAKE-SAVAGE AREA SCHOOLS
YEAR ENDED JUNE 30, 2014

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, 2014.

Audit Opinion – The 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 – We noted one control deficiency in internal controls which we considered a "material weaknesses" and we noted one control deficiency which we considered a "significant deficiency" which is less severe than a material weakness.

Single Audit – As part of the Single Audit we tested the District's compliance with requirements of major federal programs (Special Education Cluster and Child Nutrition Cluster). We reported one finding related to an IEP meeting. Please refer to the federal audit report for details.

Legal Compliance – Two compliance issues were noted with respect to Minnesota Statutes.

Enrollment – For fiscal 2013-2014 Prior Lake-Savage Area Schools served an estimated total adjusted average daily membership of 7,402.26 (or 8,580.88 adjusted pupil units). For fiscal 2012-2013, Prior Lake-Savage Area Schools had an estimated total adjusted average daily membership of 7,214.05 (or 8,361.19 adjusted pupil units).

Fund Balance – The School's General Fund unassigned fund balance for UFARS reporting purposes increased by $836,944 during fiscal year 2014, increasing from $4,639,768 to $5,476,712. Total fund balance of the General Fund increased by $124,629, ending at $12,941,309 as of June 30, 2014. The total ending unassigned fund balance represents 7.74 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 limited new state funding.

Budget to Actual – Total revenues on a net basis in the General Fund were $1,086,841 (or 1.6%) higher than the budgeted amount while total expenditures were $1,666,613 (or 2.3%) lower than had been budgeted. The net effect was an increase in total fund balance that was $2,753,454 more than had been reflected in the District's budget. The majority of the expenditure budget variance relates to timing differences on capital-related expenditures as well as unexpended amounts that are subject to site carryover.

Food Service Disbursement Approval – We noted that the process for documenting approval of certain food service department invoices was a color-coding system. We noted one instance where no such documentation of approval had been reflected on the invoice. It is our understanding that a more traditional method for documentation of approval was subsequently implemented.

I. FINANCIAL RESULTS

PRIOR LAKE-SAVAGE AREA SCHOOLS

AUDITED FUND BALANCES THROUGH JUNE 30, 2014

FUND DESCRIPTION	6/30/13 AUDITED BALANCE	2013-14 AUDITED REVENUES	2013-14 AUDITED EXPENDITURES	TRANSFERS OUT OF FUNDS	6/30/14 AUDITED BALANCE
GENERAL FUND					
A. UNASSIGNED - OPERATING	$4,639,768	$61,680,636	$60,218,267	($625,425)	$5,476,712
As a percentage of current year expenditures	7.0%				7.7%
B. NONSPENDABLE FOR					
PREPAIDS	$243,483	$0	$4,972		$238,511
INVENTORY	$210,956	$0	$22,336		$188,620
TOTAL NONSPENDABLE	$454,439	$0	$27,308	$0	$427,131
C. ASSIGNED FOR					
SPECIAL EDUCATION STIMULUS	$533,010	$0	$100,000		$433,010
REDTAIL RIDGE	$100,000	$0	$72,268		$27,732
CASHFLOW	$2,000,000	$0	$277,500		$1,722,500
CLASS-SIZE REDUCTION	$500,000	$0	$0		$500,000
TWO-YEAR PROGRAM ADDITIONS	$150,000	$0	$150,000		$0
TECHNOLOGY	$0	$500,000	$0		$500,000
INNOVATION DOLLARS	$500,000	$0	$0		$500,000
Q-COMP	$650,000	$1,912,300	$2,380,217		$182,083
SITE CARRYOVER	$425,083	$0	$8,414		$416,669
TOTAL ASSIGNED	$4,858,093	$2,412,300	$2,988,399	$0	$4,281,994
D. RESTRICTED FOR					
STAFF DEVELOPMENT	$55,345	$910,122	$792,925	$0	$172,542
DEFERRED MAINTENANCE	$196,040	$300,641	$246,594	$0	$250,087
AREA LEARNING CENTER	$0	$384,161	$779,633	$395,472	$0
OPERATING CAPITAL	$2,460,437	$1,862,693	$1,390,348	$0	$2,932,782
HEALTH & SAFETY	$41,825	$409,366	$1,197,909	$0	($746,718)
LEARNING AND DEVELOPMENT	$0	$1,649,808	$1,649,808	$0	$0
GIFTED AND TALENTED	$0	$102,970	$102,970	$0	$0
BASIC SKILLS	$0	$810,062	$810,062	$0	$0
CAREER AND TECHNICAL	$0	$117,711	$347,664	$229,953	$0
SAFE SCHOOLS	$110,733	$243,307	$207,261	$0	$146,779
TOTAL RESTRICTED	$2,864,380	$6,790,841	$7,525,174	$625,425	$2,755,472
BUDGET		$69,796,936	$72,425,761	$0	$10,187,855
TOTAL GENERAL FUND	**$12,816,680**	**$70,883,777**	**$70,759,148**	**$0**	**$12,941,309**
DIFFERENCE		$1,086,841	($1,666,613)	$0	$2,753,454
% VARIANCE		1.56%	-2.30%		

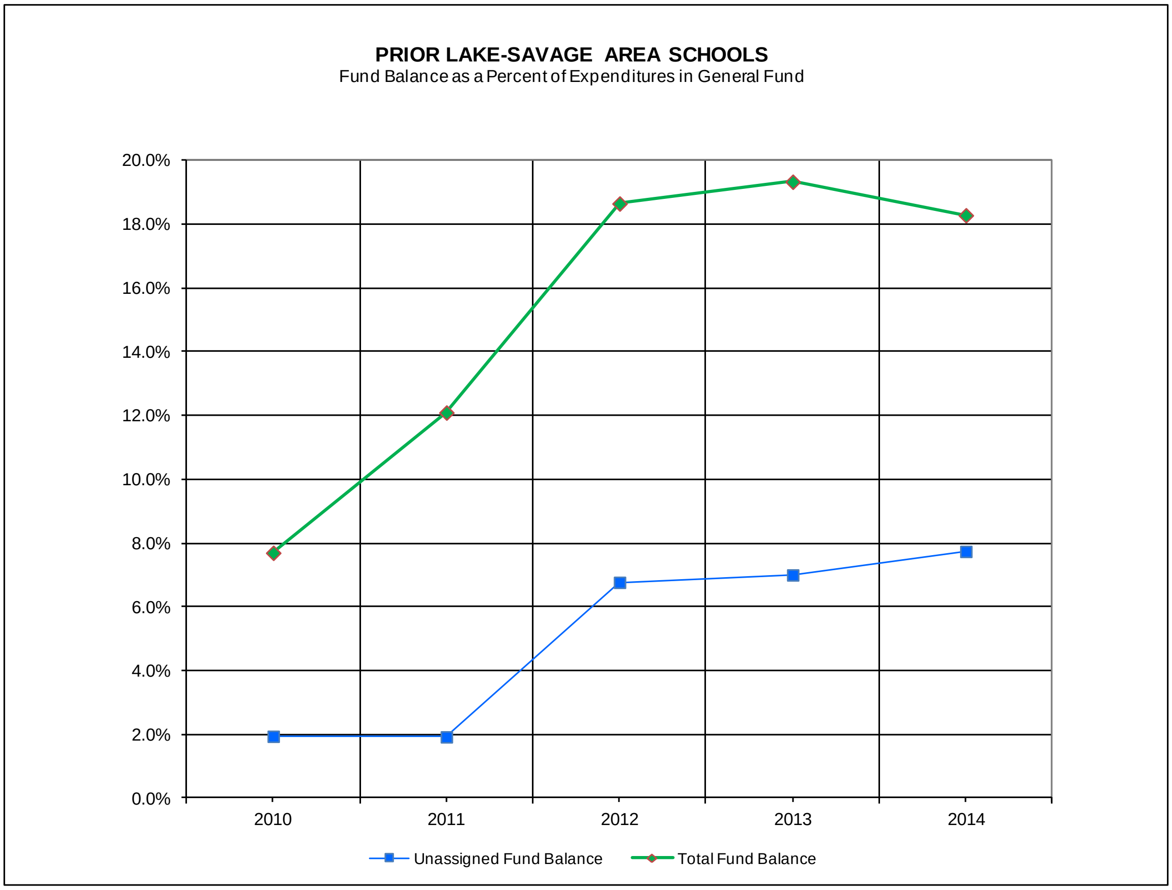
PRIOR LAKE-SAVAGE AREA SCHOOLS

AUDITED FUND BALANCES THROUGH JUNE 30, 2014

FUND DESCRIPTION	6/30/13 AUDITED BALANCE	2013-14 AUDITED REVENUES	2013-14 AUDITED EXPENDITURES	TRANSFERS OUT OF FUNDS	6/30/14 AUDITED BALANCE
FOOD SERVICE					
NONSPENDABLE FOR INVENTORY	$32,791	$0	$1,938		$30,853
NONSPENDABLE FOR PREPAID ITEMS	$175	$212	$0		$387
RESTRICTED FOR FOOD SERVICE PRC	$449,072	$3,683,000	$3,583,983		$548,089
BUDGET		$3,657,300	$3,659,370		$479,968
FOOD SERVICE	**$482,038**	**$3,683,212**	**$3,585,921**	**$0**	**$579,329**
DIFFERENCE		$25,912	($73,449)		$99,361
% VARIANCE		0.71%	-2.01%		
COMMUNITY EDUCATION					
NONSPENDABLE FOR PREPAID ITEMS	$3,982	$14,377	$0	$0	$18,359
A. RESTRICTED FOR					
COMMUNITY EDUCATION PROGRAMS	$1,155,620	$4,160,341	$4,242,164	$0	$1,073,797
ECFE PROGRAMS	$27,864	$470,745	$419,343		$79,266
ADULT BASIC EDUCATION	$0	$48,770	$47,365		$1,405
SCHOOL READINESS	$32,038	$338,073	$353,296		$16,815
OTHER PURPOSES	$29,324	$119,490	$148,814		$0
BUDGET		$5,428,285	$5,652,874	$0	$1,024,239
TOTAL COMMUNITY EDUCATION	**$1,248,828**	**$5,151,796**	**$5,210,982**	**$0**	**$1,189,642**
DIFFERENCE		($276,489)	($441,892)		$165,403
% VARIANCE		-5.09%	-7.82%		
BUDGET		$14,436,222	$21,958,922	($75,100)	$7,922,484
TOTAL BUILDING FUND	**$15,520,284**	**$14,440,809**	**$18,927,440**	**($75,047)**	**$10,958,606**
DIFFERENCE		$4,587	($3,031,482)	$53	$3,036,122
DEBT SERVICE					
OPERATING	$3,178,077	$12,523,527	$13,365,162	$75,047	$2,411,489
REFUNDING BONDS	$0	$43,734,047	$412,892	$0	$43,321,155
BUDGET		$56,092,057	$12,828,572	$75,047	$46,516,609
TOTAL DEBT SERVICE	**$3,178,077**	**$56,257,574**	**$13,778,054**	**$75,047**	**$45,732,644**
DIFFERENCE		$165,517	$949,482	$0	($783,965)
% VARIANCE		0.30%	7.40%		
PROPRIETARY FUNDS					
OPEB REVOCABLE TRUST	$3,718,812	$1,262,048	$0	$0	$4,980,860
SELF-INSURANCE ACCOUNTS	$1,484,213	$9,730,694	$8,323,015	$0	$2,891,892
TOTAL PROPRIETARY	**$5,203,025**	**$10,992,742**	**$8,323,015**	**$0**	**$7,872,752**
TOTAL	**$38,448,932**	**$161,409,910**	**$120,584,560**	**$0**	**$79,274,282**

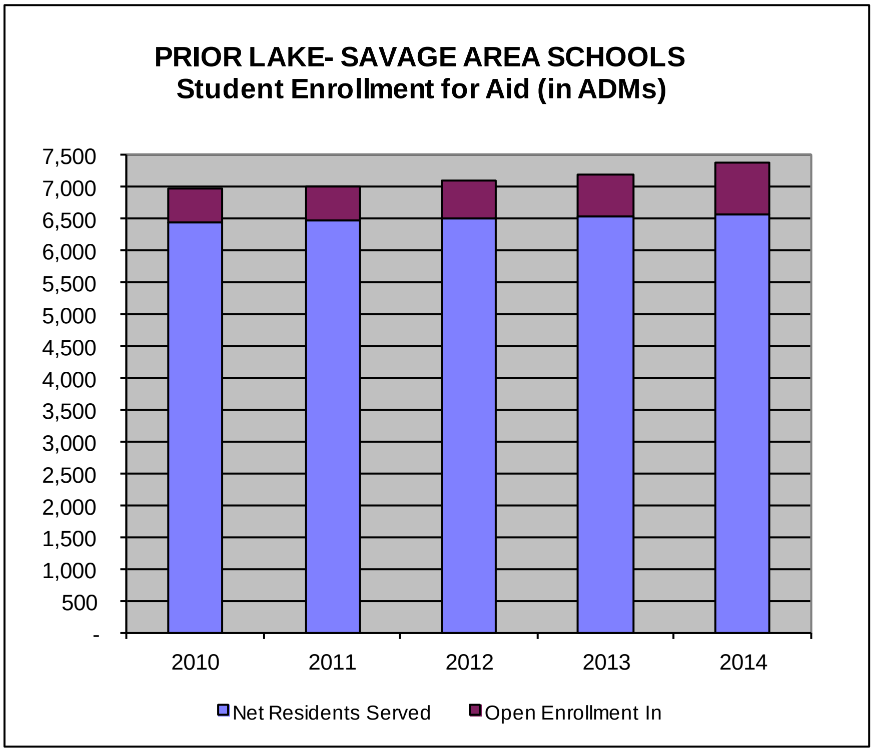
Fund Balances of the General Fund

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



Students Served for Aid

	2010	2011	2012	2013	2014
Total Residents	7,030.05	7,101.40	7,208.59	7,285.27	7,387.31
Open Enrollment Out*	(582.40)	(621.98)	(705.71)	(755.61)	(799.29)
Net Residents Served	6,447.65	6,479.42	6,502.88	6,529.66	6,588.02
Open Enrollment In	528.20	542.73	612.69	684.39	814.24
Net ADM Served	6,975.85	7,022.15	7,115.57	7,214.05	7,402.26
* including charter schools					
Net Pupil Units Served	8,064.81	8,150.46	8,263.64	8,361.19	8,580.88



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.

II. OTHER KEY TOPICS

GASB Reporting Model

Statement of Net Position

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

	As of June 30,	
	2014	2013
Total Fund Balance for Governmental Funds	$ 71,401,530	$ 33,245,907
Capital Assets, Less Accumulated Depreciation	158,378,103	145,765,067
Long-Term Liabilities	(185,183,421)	(135,977,647)
Other - Net	5,107,676	3,807,633
Total Net Position - Governmental Activities	$ 49,703,888	$ 46,840,960
Net Assets:		
Net Investment in Capital Assets	$ 30,340,820	$ 28,232,974
Restricted	4,530,597	5,836,474
Unrestricted	14,832,471	12,771,512
Total Net Position - Governmental Activities	$ 49,703,888	$ 46,840,960

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

Statement of Activities

The Statement of Activities tracks the District's yearly revenues and expenses, as well as any other transactions that increase or reduce total net assets. These amounts represent the full cost of providing education. This statement provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses. The following table presents a simplified reconciliation of the change in the District's governmental fund balances to the change in total net position for fiscal years 2014 and 2013:

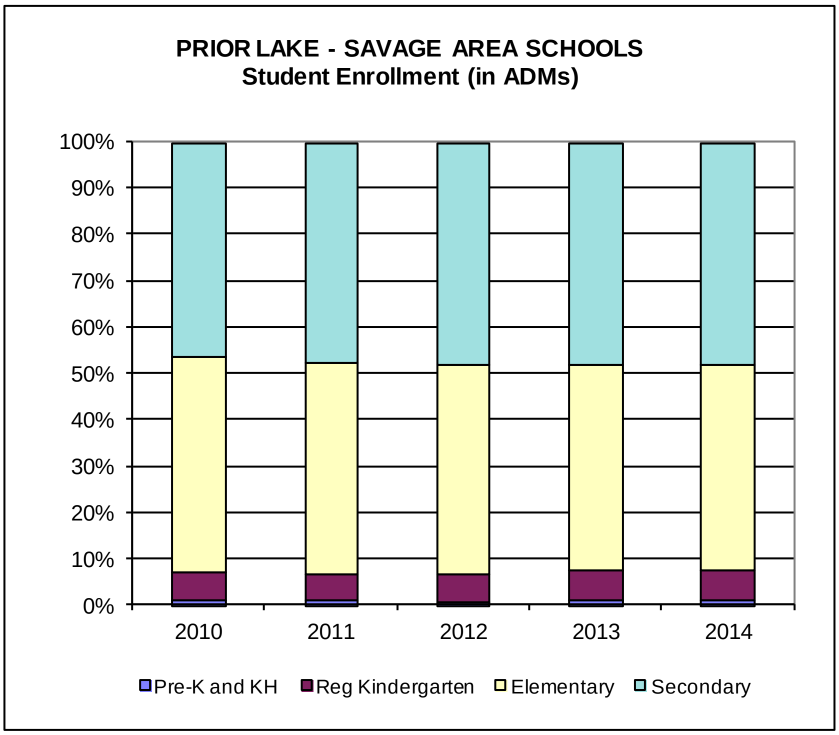
	Year Ended June 30,	
	2014	2013
Net Change in Fund Balance-Total Governmental Funds	$ 38,155,623	$ (2,995,008)
Capital Asset Purchases	17,096,467	3,803,940
Depreciation	(4,470,073)	(4,173,924)
Debt Proceeds	(42,400,000)	(17,880,000)
Repayment of Debt	8,195,000	26,740,000
Other Postemployment Benefits	(212,722)	(90,583)
Other - Net	(13,501,367)	824,287
Change in Net Position - Governmental Activities	$ 2,862,928	$ 6,228,712

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. Also, the District adopted the provisions of Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, as of and for the year ended June 30, 2011. The prior year fund balance information has been presented using these new fund balance categories for comparative analysis only.

Student Enrollment

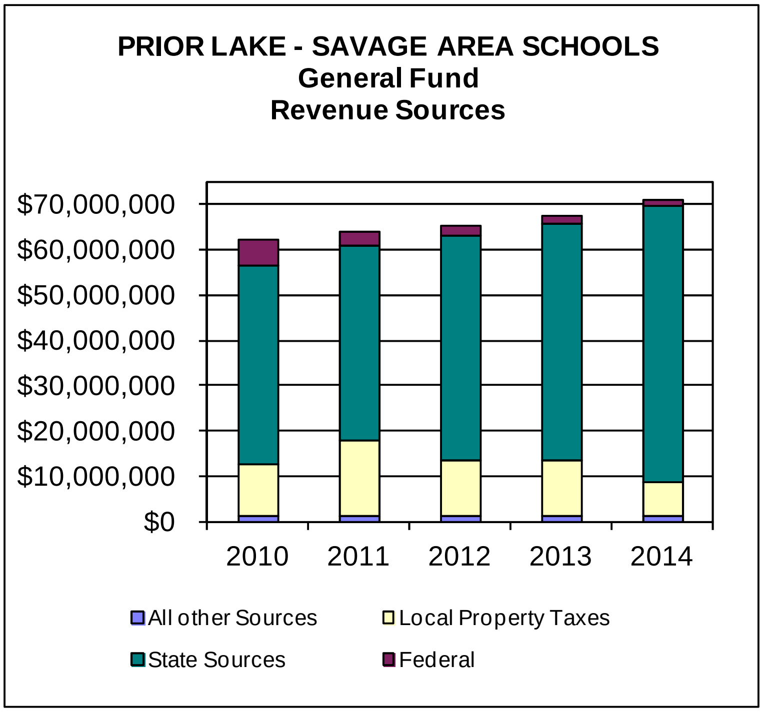


	2010	2011	2012	2013	2014
Pre-K and KH	71.31	67.25	60.59	71.79	76.25
Reg Kindergarten	437.90	418.41	422.40	468.28	483.03
Elementary	3,248.92	3,195.36	3,223.68	3,203.45	3,274.54
Secondary	3,217.72	3,341.13	3,408.90	3,470.53	3,568.44
Net ADM Served	6,975.85	7,022.15	7,115.57	7,214.05	7,402.26
Percent Change	1.45%	0.66%	1.33%	1.38%	2.61%

As noted in the above chart, the District's student count for fiscal 2013-2014 was 7,402 students (or 2.61%) 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:



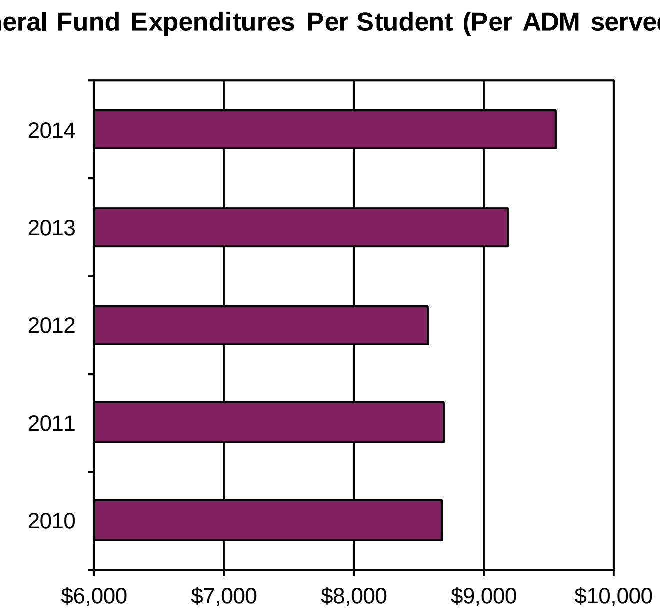
The table below illustrates the fluctuation that occurs between the taxes and state aid categories based on legislative activity. The Legislature determines what portion of the general education funding formula will be paid by local taxpayers. In addition, when the tax shift percentage changes or the 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.

	2010	2011	2012	2013	2014
Local Property Taxes	$ 11,541,847	$ 16,845,508	$ 12,257,658	$ 12,525,925	$ 7,466,027
State Sources	43,572,121	43,122,773	49,714,235	51,928,530	60,577,804
Federal Sources	6,012,928	2,800,308	1,946,676	1,625,944	1,509,050
All Other Sources	1,083,934	959,938	1,006,845	1,082,083	1,330,896
Total Revenues	$ 62,210,830	$ 63,728,527	$ 64,925,414	$ 67,162,482	$ 70,883,777

	2010	2011	2012	2013	2014
Local Property Taxes	18%	26%	19%	19%	11%
State Sources	70%	68%	76%	77%	85%
Federal Sources	10%	4%	3%	2%	2%
All Other Sources	2%	2%	2%	2%	2%
Total Revenues	100%	100%	100%	100%	100%

* The large increase in taxes in 2011 compared to 2010 is not due to a large levy increase, but rather relates primarily to the tax shift whereby the State withholds state aid payments but instructs school districts to advance recognize tax revenue to offset the aid withheld. In 2011, the District advance recognized $4,695,754 of tax revenue in the General Fund due to the tax shift prescribed by the State of Minnesota. A corresponding state aid revenue reduction was recognized, resulting in the change in percentage of revenue. The large decrease in taxes and the related increase in State Sources in 2014 compared to 2013 is not due to a large levy decrease, but rather relates to the tax shift buydown that took place in fiscal 2014.

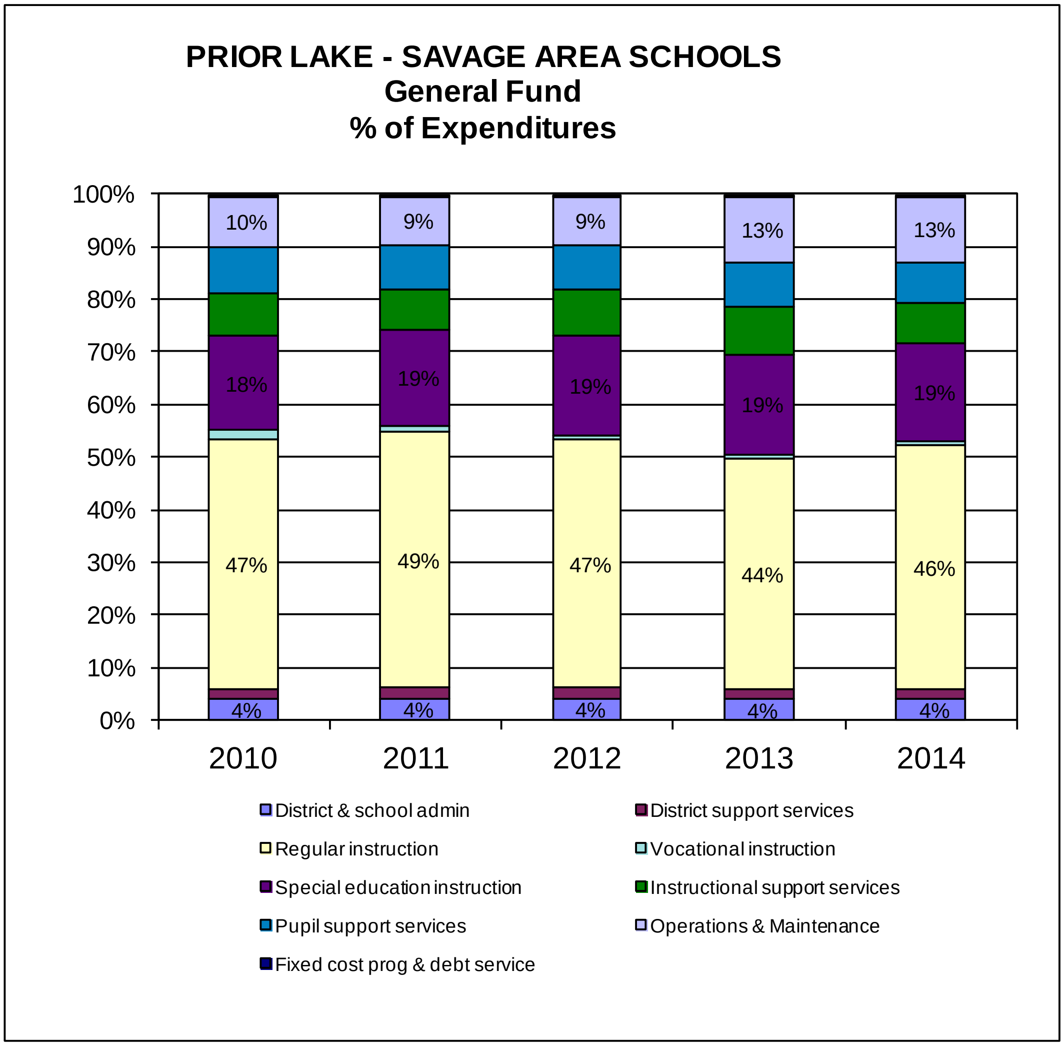
Expenditures Per Student
Expenditures per student (average daily membership) are summarized in the following graph:



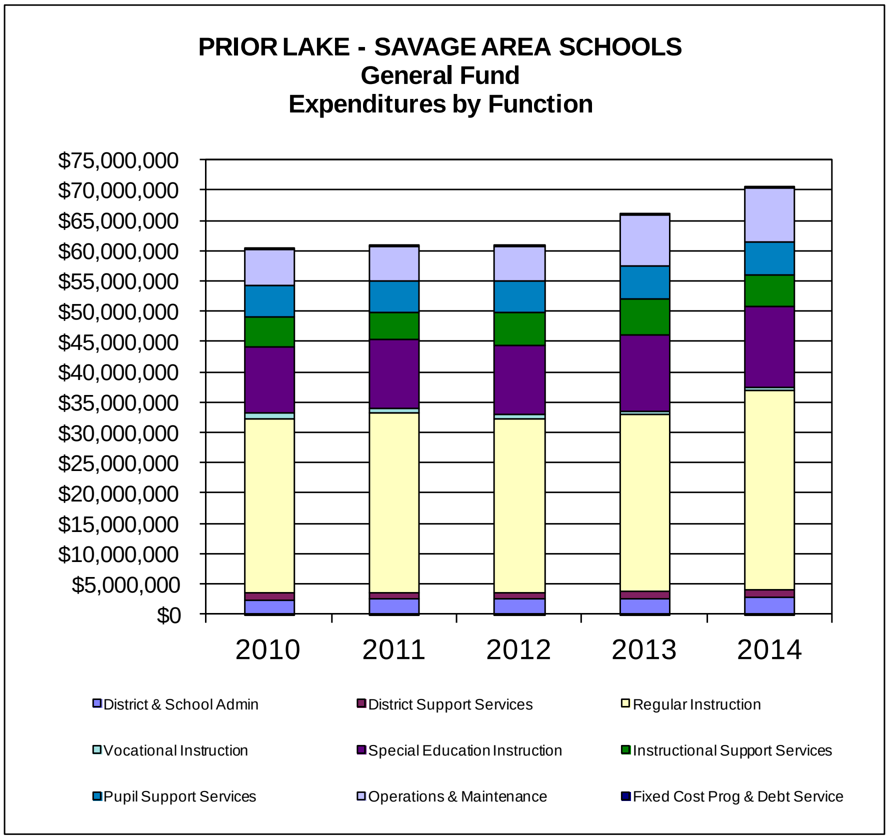
	2010	2011	2012	2013	2014
General Fund - All Expenditures	$8,671	$8,687	$8,564	$9,185	$9,559

The District expended $374 more per student (or 4.0%) served in fiscal 2014 than it had for fiscal 2013. A significant portion of this increase is the result of enrollment growth.

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



Expenditures Per Student (Continued)



	2010	2011	2012	2013	2014
District and School Admin	$ 2,444,355	$ 2,547,660	$ 2,535,087	$ 2,565,950	$ 2,833,719
District Support Services	1,181,184	1,138,869	1,168,207	1,293,734	1,295,669
Regular Instruction	28,606,885	29,723,873	28,711,128	29,098,624	32,789,161
Vocational Instruction	1,092,029	640,500	586,156	585,877	575,454
Special Education Instruction	10,801,632	11,323,654	11,476,531	12,551,354	13,287,188
Instructional Support Services	4,890,617	4,518,027	5,392,618	5,906,605	5,297,931
Pupil Support Services	5,363,719	5,115,598	5,126,464	5,566,546	5,539,546
Operations and Maintenance	5,896,173	5,786,736	5,718,256	8,480,035	8,848,378
Fixed Cost Prog and Debt Service	213,604	209,054	221,525	214,070	292,102
Total Expenditures	$ 60,490,198	$ 61,003,971	$ 60,935,972	$ 66,262,795	$ 70,759,148

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

	2014				2013	2012
	Final Amended Budget	Actual	Over (Under) Budget	%	Actual	Actual
Salaries	$ 39,928,594	$ 40,107,491	$ 178,897	0.4%	$ 37,254,703	$ 35,387,522
Employee Benefits	16,134,975	16,709,193	574,218	3.6%	14,724,756	14,498,199
Purchased Services	8,782,270	8,000,257	(782,013)	-8.9%	9,010,043	6,489,560
Supplies and Materials	2,657,210	2,313,056	(344,154)	-13.0%	2,016,918	2,363,932
Capital Expenditures	4,781,922	3,444,409	(1,337,513)	-28.0%	3,123,753	2,072,300
Other Expenditures	140,790	184,742	43,952	31.2%	132,622	124,459
Total Expenditures	$ 72,425,761	$ 70,759,148	$ (1,666,613)	-2.3%	$ 66,262,795	$ 60,935,972

On a net basis, total expenditures were 2.3% lower than reflected in the final amended budget amount, however, the vast majority of this variance relates to the timing of capital expenditures that had not yet occurred in fiscal 2014.

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,				
	2010	2011	2012	2013	2014
Revenues	$ 62,210,830	$ 63,728,527	$ 64,925,414	$ 67,162,482	$ 70,883,777
Expenditures	60,490,198	61,003,955	60,935,972	66,262,795	70,759,148
Excess of Revenues Over Expenditures	1,720,632	2,724,572	3,989,442	899,687	124,629
Other Financing Sources:					
Capital Improvement Loan Proceeds	-	-	-	547,305	-
Excess of Revenues and Other Financing Sources Over Expenditures	1,720,632	2,724,572	3,989,442	1,446,992	124,629
Fund Balance:					
Beginning of Year	2,935,042	4,655,674	7,380,246	11,369,688	12,816,680
End of Year	$ 4,655,674	$ 7,380,246	$ 11,369,688	$ 12,816,680	$ 12,941,309
Nonspendable Fund Balance	$ 306,875	$ 234,241	$ 343,268	$ 454,439	$ 427,131
Restricted Fund Balance	1,157,355	1,774,958	2,419,865	2,864,380	2,755,472
Assigned Fund Balance	2,019,443	4,199,715	4,481,225	4,858,093	4,281,994
Unassigned Fund Balance	1,172,001	1,171,332	4,125,330	4,639,768	5,476,712
Total Fund Balance	$ 4,655,674	$ 7,380,246	$ 11,369,688	$ 12,816,680	$ 12,941,309
Unassigned Fund Balance as a Percentage of Expenditures	1.94%	1.92%	6.77%	7.00%	7.74%

The District's General Fund had revenues over expenditures of $124,629 for fiscal 2014, increasing total fund balance to $12,941,309 at June 30, 2014. Total fund balance includes a net of $2,755,472 in restricted accounts, $427,131 in nonspendable accounts, $4,281,994 in Board-assigned accounts as prescribed by state statute. That leaves an unassigned fund balance of $5,476,712 at year-end, which is 7.74% of total General Fund expenditures.

The increase in total revenue from fiscal 2013 to fiscal 2014 of $3.72 million can be primarily attributed to enrollment growth, general education formula improvement of $78 per pupil unit and new funding related to the implementation of the Q-Comp program.

General Fund expenditures for fiscal 2014 were $70,759,148 which represents an increase of $4,496,353 or 6.8% from fiscal 2013.

Food Service Fund

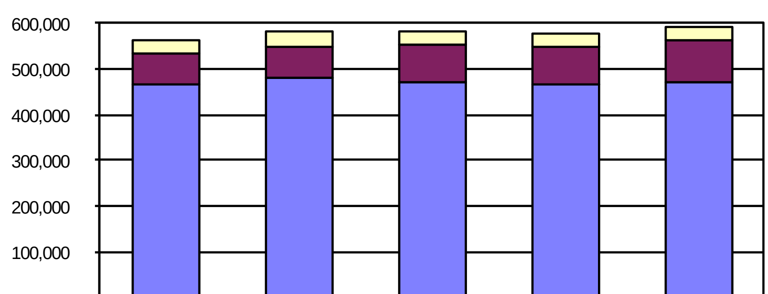
The following chart reflects the growth of the food service program over the past five years:

	Year Ended June 30,				
	2010	2011	2012	2013	2014
Revenues	$ 3,183,682	$ 3,201,739	$ 3,312,294	$ 3,494,798	$ 3,683,212
Expenditures	3,242,145	3,200,893	3,297,668	3,418,305	3,585,921
Excess (Deficiency) of Revenues Over (Under) Expenditures	(58,463)	846	14,626	76,493	97,291
Fund Balance:					
Beginning of Year	448,536	390,073	390,919	405,545	482,038
End of Year	$ 390,073	$ 390,919	$ 405,545	$ 482,038	$ 579,329
Lunches Served to Students	563,516	583,423	581,095	578,670	593,215
Revenue per Lunch Served	$ 5.65	$ 5.49	$ 5.70	$ 6.04	$ 6.21

Total revenues exceeded total expenditures by $97,291 in the District's Food Service Fund for 2014, increasing fund balance to $579,329 at June 30, 2014. The ending fund balance represents 16.2% 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 $25,912 while total expenditures were $73,449 less than the budgeted amount. The net impact of these variances was to increase the fund balance of the Food Service Fund by $99,361 more than had been anticipated. These are commendable results given the implementation of the federal Healthy-Hunger Free Kids Act in 2014 which in some cases significantly impacted portion sizes and food options. Many districts saw a decline in the number of meals served as a result of the new requirements.

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

MEALS SERVED TO STUDENTS



	2010	2011	2012	2013	2014
Reduced Meals	29,484	32,116	27,307	28,959	27,681
Free Meals	67,305	72,242	81,448	84,820	96,313
Full-Price Meals	466,727	479,065	472,340	464,891	469,221
Total meals served	563,516	583,423	581,095	578,670	593,215

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,				
	2010	2011	2012	2013	2014
Revenues	$ 4,262,174	$ 4,606,528	$ 4,932,936	$ 5,018,840	$ 5,151,796
Expenditures	4,243,135	4,387,145	4,582,419	5,114,750	5,210,982
Excess (Deficiency) of Revenues Over (Under) Expenditures	19,039	219,383	350,517	(95,910)	(59,186)
Fund Balance:					
Beginning of Year	755,799	774,838	994,221	1,344,738	1,248,828
End of Year	$ 774,838	$ 994,221	$ 1,344,738	$ 1,248,828	$ 1,189,642
Fund Balance:					
Nonspendable	$ 1,577	$ 5,690	$ 3,433	$ 3,982	$ 18,359
Restricted for Community Ed	605,455	777,349	1,075,740	1,155,620	1,073,797
Restricted for ECFE	117,867	129,065	126,578	27,864	79,266
Restricted for School Readiness	33,414	80,953	124,160	32,038	16,815
Restricted for Adult Basic Ed	-	-	-	-	1,405
Restricted for Other Purposes	16,525	1,164	14,827	29,324	-
Total Fund Balance	$ 774,838	$ 994,221	$ 1,344,738	$ 1,248,828	$ 1,189,642

The District's Community Service Fund total expenditures exceeded revenues by $59,186 for fiscal 2014, bringing the combined fund balance to $1,189,642 at June 30, 2014. Total revenue was less than the final budgeted amount by $276,489 while total expenditures were $441,892 less than the budgeted amount. The net impact of these variances was to decrease the fund balance of the Community Service Fund by $165,403 less than had been anticipated. The District should continue the process of carefully reviewing Community Service Fund budgeting procedures to ensure that class pricing and costs and other related decisions are based upon the best information possible.

APPENDIX B

	Statewide All Districts 2013	Statewide Seven County Metro Area 2013	Statewide Enrollment > than 4,450 2013	ISD No. 719 Prior Lake - Savage Area Schools 2012	ISD No. 719 Prior Lake - Savage Area Schools 2013	ISD No. 719 Prior Lake - Savage Area Schools 2014
District and School Admin and Support Services	$ 892	$ 837	$ 817	$ 510	$ 525	$ 554
Regular Instruction (including Co- & Extra-Curricular)	4,955	5,273	5,145	3,941	3,934	4,400
Vocational Instruction (Career & Technical)	132	132	134	82	81	77
Special Education Instruction	1,896	2,055	2,073	1,597	1,721	1,783
Instructional Support Services	466	562	550	675	705	711
Pupil Support Services (excluding Transportation)	291	349	341	240	262	247
Pupil Transportation	625	642	626	475	503	496
Operations & Maintenance and Other	838	800	820	690	943	758
Food Service	497	500	495	455	467	471
Community Service	515	646	619	629	690	696
Capital Expenditure (excluding Building Constr Fund)	570	469	462	304	448	476
Debt Service	1,173	1,322	1,223	1,945	1,753	1,855
Total Pre-K - 12 Operating Expenditures	$ 12,850	$ 13,587	$ 13,305	$ 11,542	$ 12,032	$ 12,524
Percent Change from Prior Year				-1.30%	4.24%	4.09%

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, the Office of the Legislative Auditor, the Minnesota Association of Charter Schools and the Minnesota House of Representatives.

Formula Increase

The General Education Revenue formula allowance was increased $25 per pupil (.5% increase) for FY15. This increases funding for other revenues linked to the formula allowance (e.g., compensatory, sparsity, transportation sparsity, nonpublic transportation, nonpublic pupil, Indian tribal contract, and, beginning in FY 2015, ECFE).

Local Optional Revenue

Extends Local Optional Revenue, formerly known as location equity revenue, to all school districts. This provides every school district the opportunity to levy operating dollars on Referendum Market Value tax base up to $424 per pupil.

English Language Learners

The maximum number of years a student may receive state-funded English learner services was increased from five to six years. Students with less than 6 years of ADM in Minnesota whose test results indicate proficiency in English will continue to be eligible for funding up to the 6 year limit if the classroom teacher determines that the student is not proficient.

Teacher Evaluation

Appropriates $10 million (in FY15 only) for non-Q Comp districts to begin to implement teacher evaluation. Non-Q Comp school districts will receive $302 times the number of full-time equivalent teachers employed on October 1 of the previous school year. Revenue under this section must be reserved for teacher development and evaluation activities. “Teacher” is broadly defined to include other professional employees and administrators required to hold a license from MDE.

School Lunch and Breakfast

Fully funds reduced-price lunch by increasing the state school lunch aid from 12.5 cents to 52.5 cents per reduced-price lunch, making the lunches free for those students. Extends fully priced breakfast to all kindergarten students by increasing state aid for school breakfasts from 55 cents to $1.30, making school breakfasts free for all kindergarten students.

Safe Schools Levy for Intermediate School Districts

The safe schools levy for intermediate districts was increased by $5 per pupil (from $10 to $15) beginning in FY16 (Pay 2015 levy).

Building Lease Levy

Increases lease levy authority by $50 per APU (from $162 to $212) for regular districts and $19 per APU (from $46 to $65) for intermediate districts beginning in FY16 (Pay 2015 levy).

Review and Comment

Increases the minimum qualifying amount needed to trigger a review and comment from $1.4 million to $2 million. Removes the need for a review and comment on most maintenance projects. Exempts from review and comment: a) facility additions, remodeling and maintenance projects funded only with general education revenue, health & safety revenue, alternative facilities revenue, deferred maintenance revenue, lease levies, or facilities bonding, and b) technology purchases funded with capital projects referendum.

Aligning Minnesota's Alternative Teacher Professional Pay System and Teacher Evaluation Program

Directs MDE to consult with experts and legislators on better aligning Minnesota's alternative professional pay system and teacher developmental and evaluation program and to report to the legislature by February 1, 2015, on effecting and funding an improved alignment.

Career and Technical Education Programs

Directs MDE to consult with experts knowledgeable about secondary and post-secondary career and technical education programs to determine the content, status, and resources of specific career and technical education programs available in Minnesota.

Special Education Online Reporting

Directs MDE to integrate, customize, and sustain a streamlined statewide online system, with a single, integrated model online form, for collecting and reporting special education-related data. Requires the online system to interface with existing state reporting systems and with local district data systems.

Natural Disaster Debt Service Equalization

Defines "eligible natural disaster debt service revenue" as the amount necessary to raise between 105 and 106 percent of the annual repayment of debt for repair of facilities that (1) have been impacted by a natural disaster occurring since January 1, 2005; (2) sustained damage of more than $500,000; and (3) have repair and replacement costs that are not covered by FEMA or insurance.

School Readiness

Increases appropriation by $1.8 million in FY15, $4 million in FY16-17.

Early Childhood Family Education

Increases appropriation by $4.65 million in FY15, $10.88 million in FY16-17. Also changes ECFE formula so it keys off the K-12 per pupil formula (the ECFE allowance equals 2.3 percent of the general education formula allowance) which is an 11.8 percent increase. Includes policy language on program implementation and a community needs assessment.

Early Learning Scholarships

Appropriates $4.65 million in FY15 and $10.33 million in FY16- 17. Clarifies that recipients of Pathway II scholarships may use its established registration process to enroll scholarship recipients and may verify a scholarship recipient's family income in the same manner as for other program participants. Allows Pathway II recipients to be paid directly from MDE.

Adult Basic Education Supplemental Service Grants

Increases the maximum amount of a supplement services grant to any single organization from 20 to 40% of the total amount of supplemental service aid.

State Total Adult Basic Education Aid

Increases the adult basic education program growth factor from 1.025 to 1.03 for fiscal years 2015 and later. Increases the portion of adult basic education aid available for supplemental service grants from 2 to 3% of the total program aid.

APPENDIX D

TECHNICAL UPDATE

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

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

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

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

Previously, school districts would report a property tax receivable, and a comparable unearned revenue liability (property taxes levied for subsequent year), for the portion of the property tax levied but not intended as revenue as of June 30. Under GASB 65, the unearned revenue amount is now presented as a deferred inflow rather than a liability.

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

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

The primary objective of this statement is to improve financial reporting by state and local governmental pension plans. In Minnesota this will be applicable to statewide pension plans such as PERA and TRA for the fiscal year ended June 30, 2014. GASB Statement No. 67 replaces the requirements of GASB Statements Nos. 25 and 50 for pension plans that are administered through trusts or equivalent arrangements that meet the following criteria: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. The requirements of GASB Statements Nos. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement, although there is currently an exposure draft covering these statements also which will make similar changes. Not all retiree health care benefits and OPEB benefits are subject to the GASB's new pension standards. Instead, they are subject to the GASB's current OPEB standards provided in Statements 43 and 45, although the OPEB standards are also currently under review by GASB.

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

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

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

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

GASB Statement No. 69 – Government Combinations and Disposals of Government Operations

This statement provides accounting and financial reporting guidance, including disclosure requirements, for government combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. Included within the scope of this statement are combinations of governmental entities or combinations of governmental entities, with nongovernmental entities (such as a nonprofit entity) as long as the new or continuing organization is a government. This statement does not apply to combinations in which a government acquires an organization that continues to exist as a separate entity, or acquires an equity interest in an organization that remains legally separate from the acquiring government. A disposal of operations occurs when a government either transfers or sells specific operations. This statement is effective for school district financial statements for the fiscal year ending June 30, 2015, although earlier application is encouraged.

GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation.

GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by the school district to a defined benefit pension plan after the measurement date of the school district's beginning net pension liability.

Statement 68 requires a school district employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a school district makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the school district recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a school district that arise from other types of events.

GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68 (Continued)

At transition to Statement 68, if it was not practical for a school district to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of a school district's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a school district recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

Changes to Federal Grant Audit Requirements

The U.S. Office of Management and Budget (OMB) has issued OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards, which includes broad revisions to OMB Circular A-133 and other key grant reforms. The guidance includes a number of significant changes to the federal Single Audit process, including; an increase in the dollar threshold for requiring a Single Audit (from $500,000 to $750,000), changes to the process for determining major programs (the Type A program threshold was raised from $300,000 to $750,000 with all other programs considered Type B), a reduction in the percentage of expenditures required to be covered by a Single Audit (from 50% to 40% of federal expenditures for high risk auditees and from 25% to 20% of federal expenditures for low risk auditees), revised criteria for determining low risk auditees, a reduction in the types of compliance requirements to be tested, and an increase in the threshold for reporting questioned costs (raised to $25,000). The guidance consolidates OMB circulars and cost principles; and changes certain federal requirements related to indirect costs, time and effort reporting, and grant administration. Grant administrators within districts will need to be on top of changes to compliance requirements and the timing of changes to avoid findings as part of the Single Audit process.

Crackdown by the Securities and Exchange Commission (SEC)

The SEC has been stepping up efforts to enforce Rule 15c2-12, which for the past twenty years has required underwriters to verify that government entities regularly post financial reports about existing bonds. The requirement to post reports is meant to keep investors informed about the district's financial health and operating condition over time, including the disclosure of significant events that could impact key features of the district's bonds. Before underwriting new bonds, dealers are required to check the Electronic Municipal Market Access (EMMA) website to ensure that a district has a spotless history of posted reports with any previously issued bonds. Problems arise when boilerplate language in new bond documents indicate that the district had properly disclosed all required reports in a timely manner when the due diligence required to verify the accuracy of that claim was not conducted. The SEC's enforcement division has charged school districts with defrauding bond investors in cases when it has been shown that required information had not, in fact, been submitted as required by the continuing disclosure rules. While most school districts rely on their trusted financial advisor to ensure that all required continuing disclosure requirements are met on an accurate, timely and complete basis, given the fact that district officials could be held liable under securities fraud laws, it is also important that the district itself be familiar with the requirements and not assume that an advisor is responsible. This is especially true where school districts use multiple bond advisors for different types of transactions or where the school district changes their professional advisor.

CliftonLarsonAllen

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, 2014, and have issued our report thereon dated October 27, 2014. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the school are described in Note 1 to the financial statements.

In 2014, the District changed accounting policies related to financial reporting guidance for deferred outflows of resources and deferred inflows of resources by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2014. This change in principle resulted in the school writing-off all bond issuance costs in the current year that had been capitalized in prior years under the previous accounting standards.

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

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Due from Minnesota Department of Education
- Due from the Federal Government through the Minnesota Department of Education
- Severance Benefits Payable
- Other Postemployment Benefits Payable
- Estimated Useful Lives of Depreciable Capital Assets

Qualitative aspects of accounting practices (continued)

Accounting estimates (continued)

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 2013-14. 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 2014 is not finalized until well into fiscal year 2015. MDE calculates amounts owed to the School for special education excess cost tuition billing and adds the amount to the School's special education aid. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from the Federal Government through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2013-14. 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.

Qualitative aspects of accounting practices (continued)

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 October 27, 2014.

Management consultations with other independent accountants

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

Significant issues discussed with management prior to engagement

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

Other audit findings or issues

We have provided a separate letter to you dated October 27, 2014, communicating internal control related matters identified during the audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 27, 2014.

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 October 27, 2014.

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
October 27, 2014

CliftonLarsonAllen
CliftonLarsonAllen LLP
CLAconnect.com

APPENDIX F

INDEPENDENT AUDITORS' REPORT ON CONDENSED FINANCIAL STATEMENTS INCLUDED HEREIN

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

Report on the Financial Statements

We have audited the financial statements of Independent School District No. 719 (the District) as of and for the years ended June 30, 2014, 2013, 2012, 2011 and 2010 (not presented herein).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Auditors' Responsibility (Continued)

The condensed Statements of Revenues, Expenditures and Changes in Fund Balance for the years presented on pages 13, 14 and 15 are presented as a summary and, therefore, do not include all of the disclosures required by U.S. generally accepted accounting principles.

Opinions

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 27, 2014