CliftonLarsonAllen LLP
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September 26, 2016

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

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

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

CliftonLarsonAllen LLP

Dennis Hoogeveen, CPA
Principal

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

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2016

PRIOR LAKE-SAVAGE AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 719
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JUNE 30, 2016

EXECUTIVE AUDIT SUMMARY (EAS)
FOR
PRIOR LAKE-SAVAGE AREA SCHOOLS
YEAR ENDED JUNE 30, 2016

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, 2016.

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 report was reported for reliance on CliftonLarsonAllen for drafting of financial statements. A material weakness in internal controls over financial reporting was also issued for a lack of internal controls over student activity receipts.

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 2015-2016 Prior Lake-Savage Area Schools served an estimated total adjusted average daily membership of 7,962.36 (or 8,742.24 adjusted pupil units). For fiscal 2014-2015, Prior Lake-Savage Area Schools had an estimated total adjusted average daily membership of 7,590.40 (or 8,318.24 adjusted pupil units).

Fund Balance – The School's General Fund unassigned fund balance for UFARS reporting purposes increased by $2,073,944 during fiscal year 2016, increasing from $5,559,364 to $7,633,308. Total fund balance of the General Fund increased by $1,332,336, ending at $12,603,659 as of June 30, 2016. The total ending unassigned fund balance represents 9.4% 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 $1,013,918 (or 1.2%) higher than the budgeted amount while total expenditures were $740,790 (or 0.9%) lower than had been budgeted. The net effect was an increase in total fund balance that was $1,754,708 more than had been reflected in the District's budget. The majority of the expenditure budget variance relates to purchased services 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 three 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, 2016

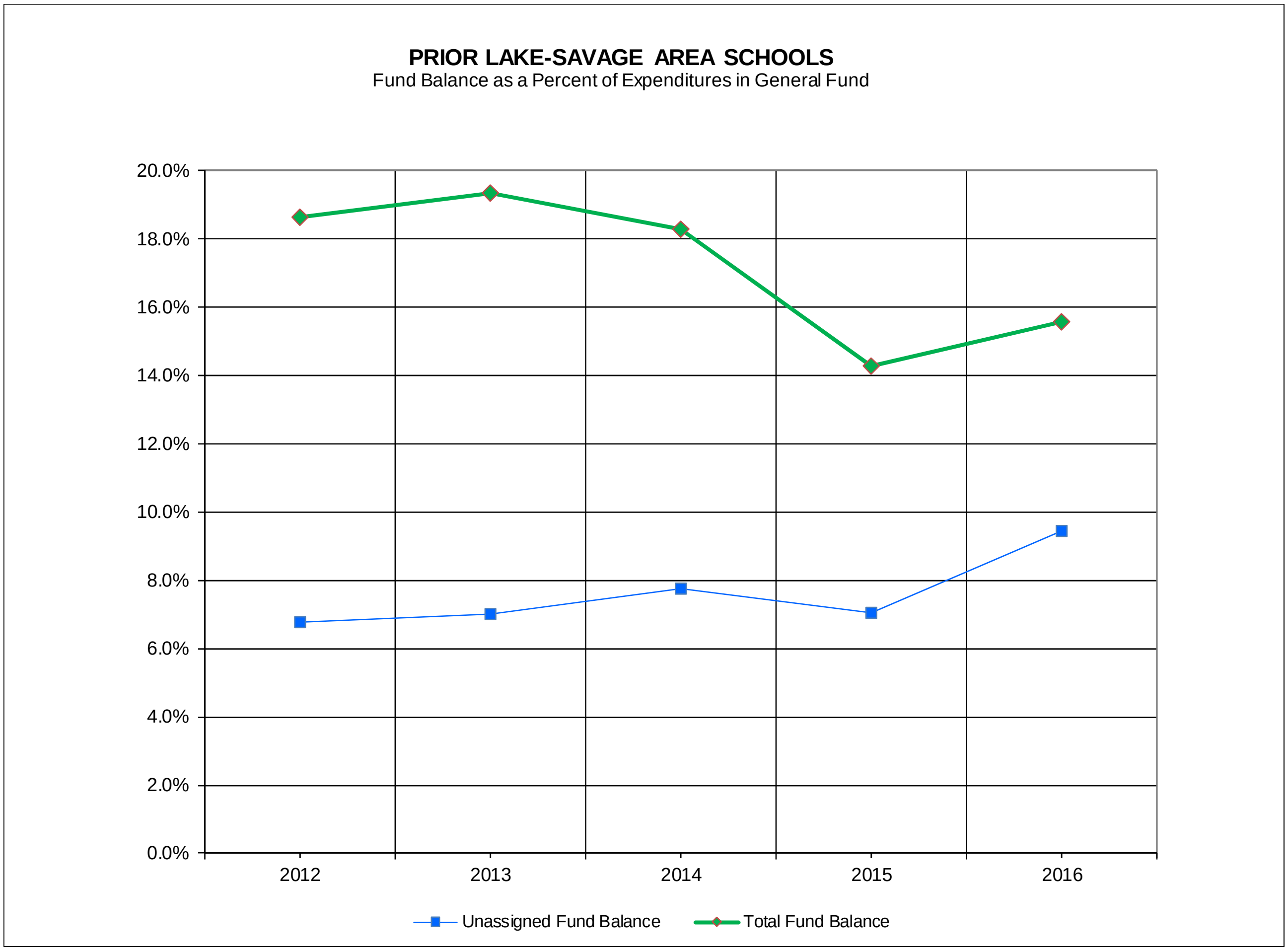
FUND DESCRIPTION	6/30/15 AUDITED BALANCE	2015-16 AUDITED REVENUES	2015-16 AUDITED EXPENDITURES	TRANSFERS OUT OF FUNDS	6/30/16 AUDITED BALANCE
GENERAL FUND					
A. UNASSIGNED - OPERATING	$5,559,364	$75,052,580	$72,578,019	($400,617)	$7,633,308
As a percentage of current year expenditures	7.0%				9.4%
B. NONSPENDABLE FOR					
PREPAIDS	$145,698	$12,492	$0		$158,190
INVENTORY	$193,379	$0	$91,196		$102,183
TOTAL NONSPENDABLE	$339,077	$12,492	$91,196	$0	$260,373
C. ASSIGNED FOR					
SPECIAL EDUCATION STIMULUS	$333,010	$0	$160,000		$173,010
CASHFLOW	$1,722,500	$0	$0		$1,722,500
CLASS-SIZE REDUCTION	$500,000	$0	$0		$500,000
INNOVATION DOLLARS	$500,000	$0	$0		$500,000
Q-COMP	$266,228	$21,686	$0		$287,914
SITE CARRYOVER	$466,802	$0	$273,200		$193,602
TOTAL ASSIGNED	$3,788,540	$21,686	$433,200	$0	$3,377,026
D. RESTRICTED FOR					
STAFF DEVELOPMENT	$102,109	$1,039,691	$1,034,394	$0	$107,406
DEFERRED MAINTENANCE	$34,355	$388,171	$409,904	$0	$12,622
OPERATING CAPITAL	$1,780,186	$2,171,170	$2,712,827	$0	$1,238,529
HEALTH & SAFETY	($457,611)	$649,247	$362,948	$0	($171,312)
LEARNING AND DEVELOPMENT	$0	$1,738,314	$1,738,314	$0	$0
GIFTED AND TALENTED	$0	$113,649	$113,649	$0	$0
BASIC SKILLS	$0	$636,658	$742,296	$105,638	$0
CAREER AND TECHNICAL	$0	$94,803	$388,394	$293,591	$0
SAFE SCHOOLS	$125,303	$309,889	$289,485	$0	$145,707
ACHIEVEMENT AND INTEGRATION	$0	$15,468	$16,856	$1,388	$0
TOTAL RESTRICTED	$1,584,342	$7,157,060	$7,809,067	$400,617	$1,332,952
(14) DISABLED ACCESSIBILITY	$0	$0	$0		$0
BUDGET		$81,229,900	$81,652,272	$0	$10,848,951
TOTAL GENERAL FUND	**$11,271,323**	**$82,243,818**	**$80,911,482**	**$0**	**$12,603,659**
DIFFERENCE		$1,013,918	($740,790)	$0	$1,754,708
% VARIANCE		1.25%	-0.91%		

AUDITED FUND BALANCES THROUGH JUNE 30, 2016

FUND DESCRIPTION	6/30/15 AUDITED BALANCE	2015-16 AUDITED REVENUES	2015-16 AUDITED EXPENDITURES	TRANSFERS OUT OF FUNDS	6/30/16 AUDITED BALANCE
FOOD SERVICE					
NONSPENDABLE FOR INVENTORY	$47,155	$0	$18,868		$28,287
NONSPENDABLE FOR PREPAID ITEMS	$8,352	$2,502	$0		$10,854
RESTRICTED FOR FOOD SERVICE PROG	$528,409	$4,372,386	$4,138,237		$762,558
BUDGET		$3,776,000	$3,974,500		$385,416
FOOD SERVICE	**$583,916**	**$4,374,888**	**$4,157,105**	**$0**	**$801,699**
DIFFERENCE		$598,888	$182,605		$416,283
% VARIANCE		15.86%	4.59%		
COMMUNITY EDUCATION					
NONSPENDABLE FOR PREPAID ITEMS	$19,561	$8,074	$0	$0	$27,635
A. RESTRICTED FOR					
COMMUNITY EDUCATION PROGRAMS	$1,153,519	$4,496,809	$4,408,029	$6,003	$1,236,296
ECFE PROGRAMS	$187,340	$518,528	$427,164		$278,704
ADULT BASIC EDUCATION	$1,405	$52,366	$53,620		$151
SCHOOL READINESS	$46,968	$806,297	$618,895		$234,370
OTHER PURPOSES	$8,613	$122,018	$136,634	($6,003)	$0
BUDGET		$5,755,563	$5,549,993	$0	$1,622,976
TOTAL COMMUNITY EDUCATION	**$1,417,406**	**$6,004,092**	**$5,644,342**	**$0**	**$1,777,156**
DIFFERENCE		$248,529	$94,349		$154,180
% VARIANCE		4.32%	1.70%		
BUDGET		$7	$142,102	$0	$0
TOTAL BUILDING FUND	**$142,095**	**$7**	**$142,102**	**$0**	**$0**
DIFFERENCE		$0	$0	$0	$0
DEBT SERVICE					
OPERATING	$1,438,402	$12,042,772	$11,700,958	$0	$1,780,216
REFUNDING BONDS	$0	$24,270,000	$0	$0	$24,270,000
BUDGET		$11,866,157	$11,700,958	$0	$1,603,601
TOTAL DEBT SERVICE	**$1,438,402**	**$36,312,772**	**$11,700,958**	**$0**	**$26,050,216**
DIFFERENCE		$24,446,615	$0	$0	$24,446,615
% VARIANCE		206.02%	0.00%		
PROPRIETARY FUNDS					
OPEB REVOCABLE TRUST	$6,159,649	$772,390	$0	$0	$6,932,039
SELF-INSURANCE ACCOUNTS	$2,699,598	$11,189,711	$11,026,832	$0	$2,862,477
TOTAL PROPRIETARY	**$8,859,247**	**$11,962,101**	**$11,026,832**	**$0**	**$9,794,516**
TOTAL	**$23,712,389**	**$140,897,678**	**$113,582,821**	**$0**	**$51,027,246**

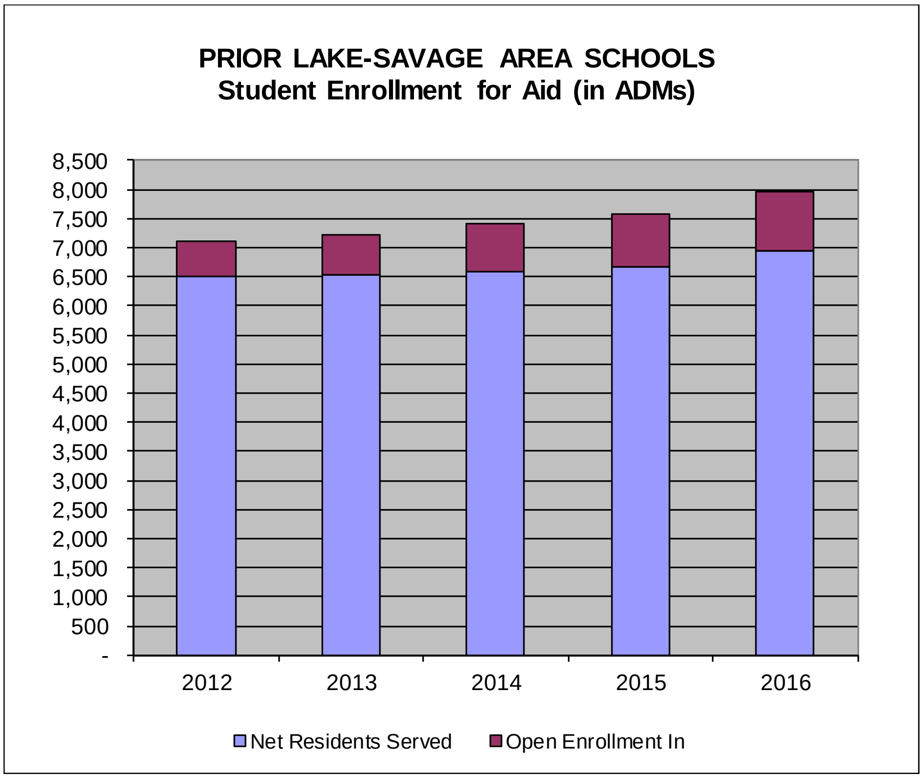
Fund Balances of the General Fund

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



Students Served for Aid

	2012	2013	2014	2015	2016
Total Residents	7,208.59	7,285.27	7,387.31	7,472.04	7,683.53
Open Enrollment Out*	(705.71)	(755.61)	(799.29)	(793.24)	(731.29)
Net Residents Served	6,502.88	6,529.66	6,588.02	6,678.80	6,952.24
Open Enrollment In	612.69	684.39	814.24	911.60	1,010.12
Net ADM Served	7,115.57	7,214.05	7,402.26	7,590.40	7,962.36
* including charter schools					
Net Pupil Units Served	8,263.64	8,361.19	8,580.88	8,318.24	8,742.24



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 positive trend improved dramatically in both fiscal 2015 and 2016.

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,	
	2016	2015
Total Fund Balance for Governmental Funds	$ 41,232,730	$ 14,853,142
Capital Assets, Less Accumulated Depreciation	168,261,879	171,066,942
Long-Term Liabilities	(151,542,832)	(135,153,792)
Pension Liability related balances	(45,551,988)	(44,893,701)
Other - Net	7,838,301	7,016,734
Total Net Position - Governmental Activities	$ 20,238,090	$ 12,889,325
Net Position:		
Net Investment in Capital Assets	$ 44,446,753	$ 39,239,879
Restricted	4,087,124	4,048,952
Unrestricted	(28,295,787)	(30,399,506)
Total Net Position - Governmental Activities	$ 20,238,090	$ 12,889,325

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 2016 and 2015:

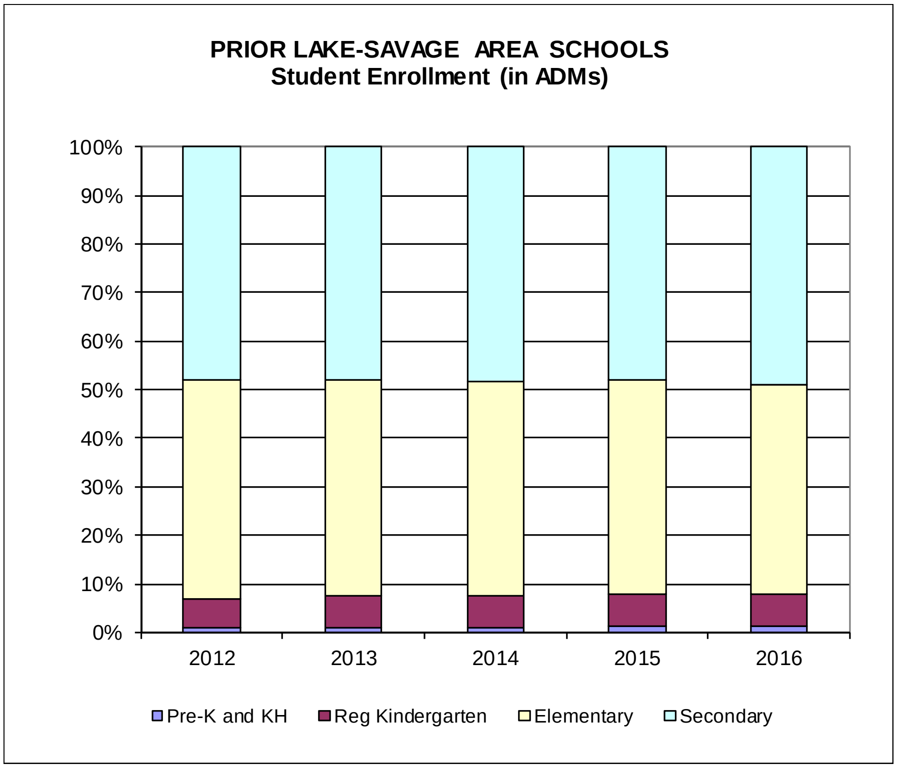
	Year Ended June 30, 2016	Year Ended June 30, 2015
Net Change in Fund Balance - Total Governmental Funds	$ 26,379,588	$ (56,548,388)
Capital Asset Purchases	2,990,759	16,002,048
Depreciation	(5,795,822)	(3,294,065)
Debt Proceeds	(21,400,000)	-
Repayment of Debt	7,035,000	49,125,000
Change in Net Pension Liability	(658,287)	549,016
Other Postemployment Benefits	(396,014)	(397,486)
Other - Net	(806,459)	3,192,029
Change in Net Position - Governmental Activities	$ 7,348,765	$ 8,628,154

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

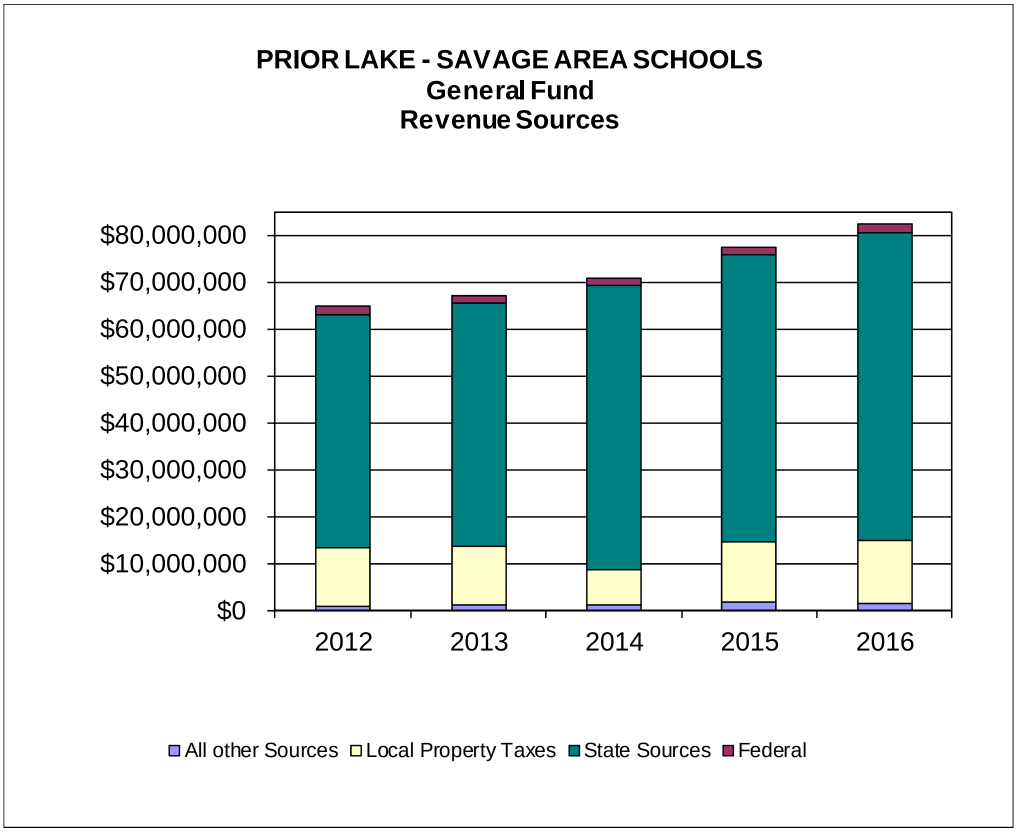


	2012	2013	2014	2015	2016
Pre-K and KH	60.59	71.79	76.25	99.67	90.53
Reg Kindergarten	422.40	468.28	483.03	489.03	531.53
Elementary	3,223.68	3,203.45	3,274.54	3,362.60	3,440.93
Secondary	3,408.90	3,470.53	3,568.44	3,639.10	3,899.37
Net ADM Served	7,115.57	7,214.05	7,402.26	7,590.40	7,962.36
Percent Change	2.00%	1.38%	2.61%	2.54%	4.90%

As noted in the above chart, the District's student count for fiscal 2015-2016 was 371.96 students (or 4.90%) 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:



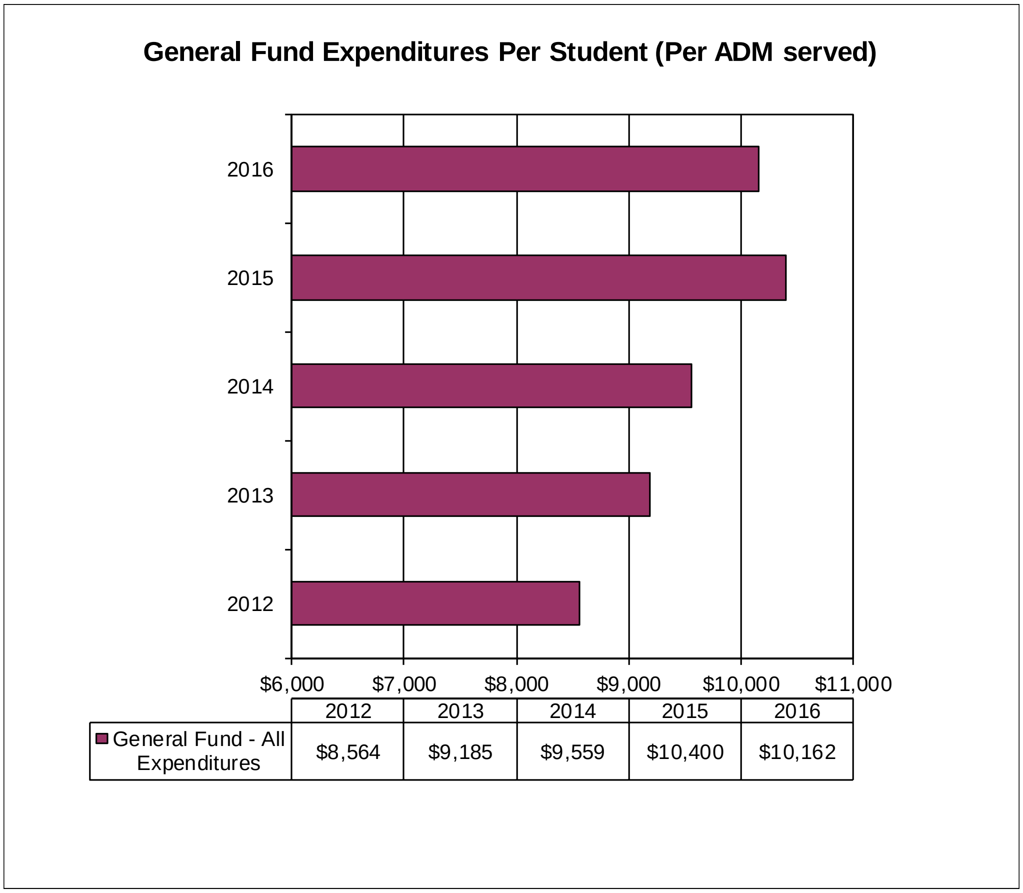
The table below illustrates the fluctuation that occurs between the taxes and state aid categories based on legislative activity. The Legislature determines what portion of the general education funding formula will be paid by local taxpayers. In addition, when the tax shift percentage changes or the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

	2012	2013	2014	2015	2016
Local Property Taxes	$ 12,257,658	$ 12,525,925	$ 7,466,027	$ 13,063,615	$ 13,477,228
State Sources	49,714,235	51,928,530	60,577,804	61,166,707	65,571,124
Federal Sources	1,946,676	1,625,944	1,509,050	1,313,872	1,663,413
All Other Sources	1,006,845	1,082,083	1,330,896	1,710,060	1,532,053
Total Revenues	$ 64,925,414	$ 67,162,482	$ 70,883,777	$ 77,254,254	$ 82,243,818

	2012	2013	2014	2015	2016
Local Property Taxes	19%	19%	11%	17%	16%
State Sources	77%	77%	85%	79%	80%
Federal Sources	3%	2%	2%	2%	2%
All Other Sources	2%	2%	2%	2%	2%
Total Revenues	100%	100%	100%	100%	100%

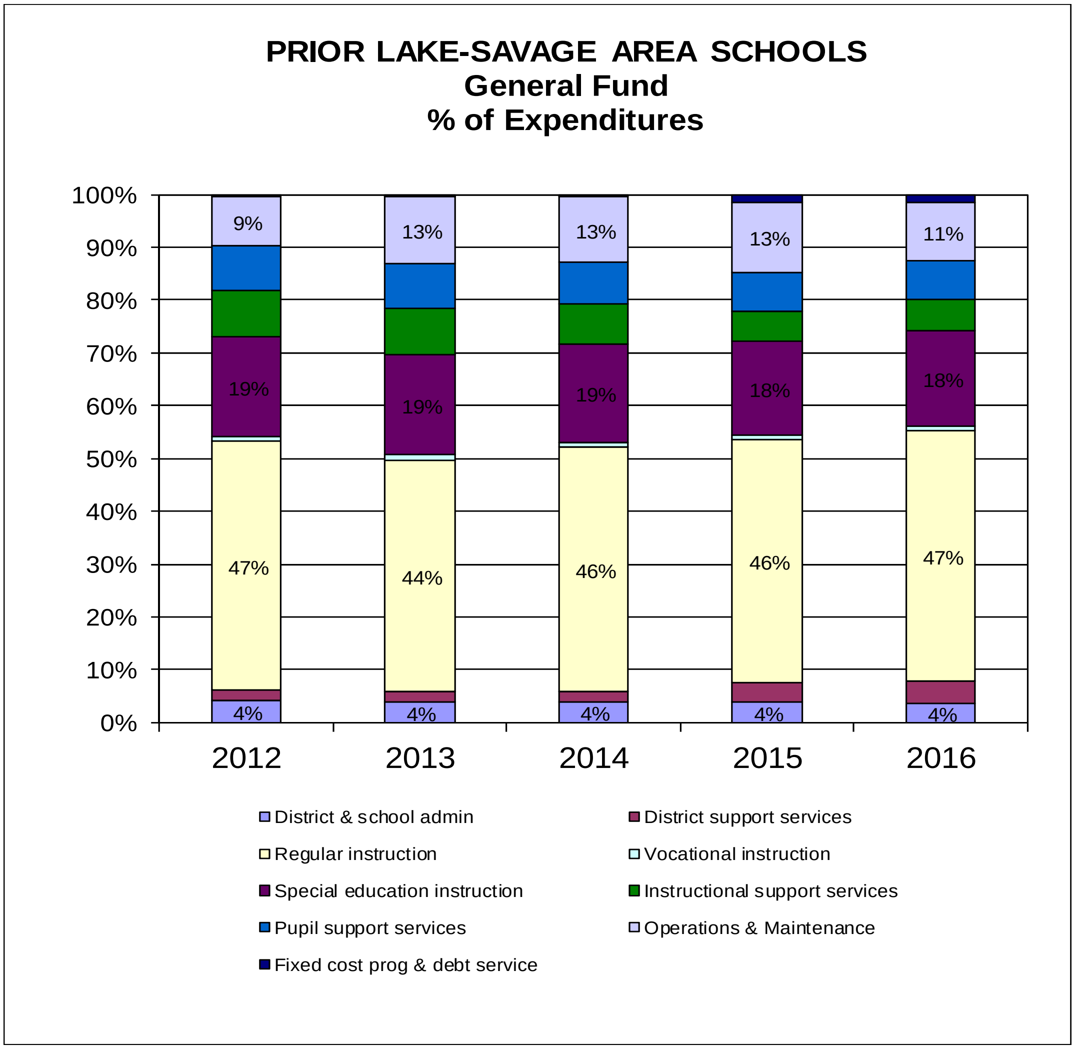
Expenditures Per Student

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

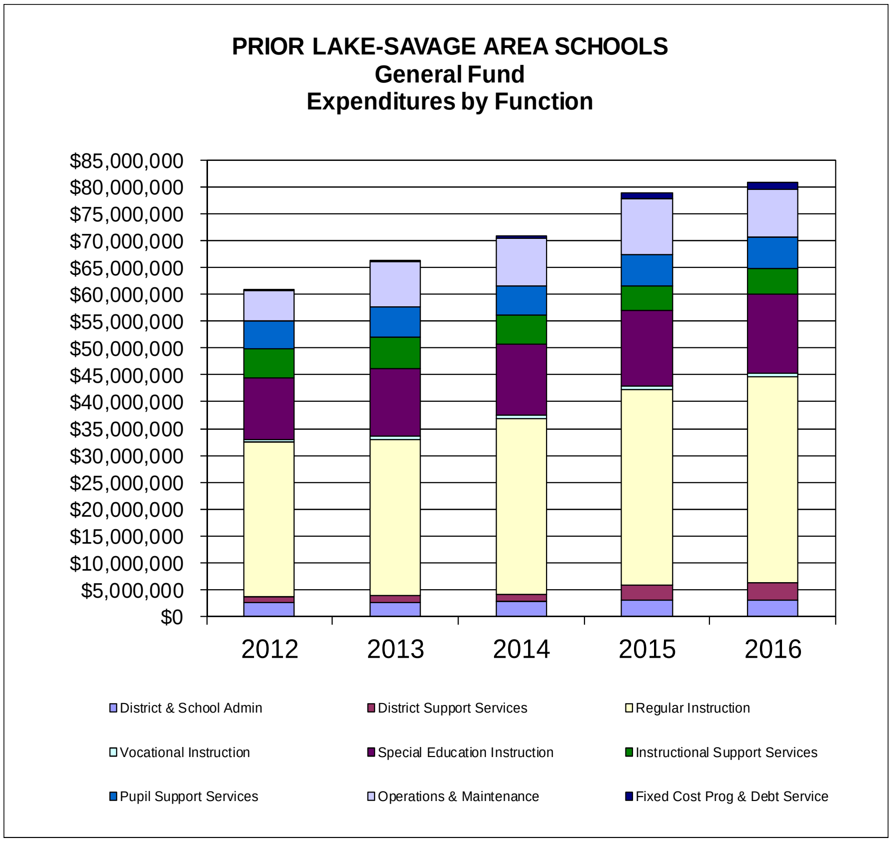


The District expended $238 less per student (or 0.02%) served in fiscal 2016 than it had for fiscal 2015.

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



Expenditures Per Student (Continued)



	2012	2013	2014	2015	2016
District and School Admin	$ 2,535,087	$ 2,565,950	$ 2,833,719	$ 3,055,111	$ 2,947,937
District Support Services	1,168,207	1,293,734	1,295,669	2,858,468	3,386,416
Regular Instruction	28,711,128	29,098,624	32,789,161	36,427,518	38,404,368
Vocational Instruction	586,156	585,877	575,454	665,893	666,499
Special Education Instruction	11,476,531	12,551,354	13,287,188	13,912,768	14,638,752
Instructional Support Services	5,392,618	5,906,605	5,297,931	4,528,930	4,822,893
Pupil Support Services	5,126,464	5,566,546	5,539,546	5,872,939	5,869,699
Operations and Maintenance	5,718,256	8,480,035	8,848,378	10,492,273	8,866,015
Fixed Cost Prog and Debt Service	221,525	214,070	292,102	1,129,484	1,308,903
Total Expenditures	$ 60,935,972	$ 66,262,795	$ 70,759,148	$ 78,943,384	$ 80,911,482

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

	2016				2015	2014
	Final Amended Budget	Actual	Over (Under) Budget	%	Actual	Actual
Salaries	$ 46,279,712	$ 46,172,053	$ (107,659)	-0.2%	$ 43,768,311	$ 40,107,491
Employee Benefits	18,774,942	18,750,542	(24,400)	-0.1%	18,083,290	16,709,193
Purchased Services	9,408,335	8,993,952	(414,383)	-4.4%	8,362,953	8,000,257
Supplies and Materials	2,584,634	2,330,235	(254,399)	-9.8%	2,539,509	2,313,056
Capital Expenditures	3,456,910	3,527,014	70,104	2.0%	5,184,838	3,444,409
Other Expenditures	1,147,739	1,137,686	(10,053)	-0.9%	1,004,483	184,742
Total Expenditures	$ 81,652,272	$ 80,911,482	$ (740,790)	-0.9%	$ 78,943,384	$ 70,759,148

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,				
	2012	2013	2014	2015	2016
Revenues	$ 64,925,414	$ 67,162,482	$ 70,883,777	$ 77,254,254	$ 82,243,818
Expenditures	60,935,972	66,262,795	70,759,148	78,943,384	80,911,482
Excess of Revenues Over Expenditures	3,989,442	899,687	124,629	(1,689,130)	1,332,336
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	3,989,442	1,446,992	124,629	(1,669,986)	1,332,336
Fund Balance:					
Beginning of Year	7,380,246	11,369,688	12,816,680	12,941,309	11,271,323
End of Year	$ 11,369,688	$ 12,816,680	$ 12,941,309	$ 11,271,323	$ 12,603,659
Nonspendable Fund Balance	$ 343,268	$ 454,439	$ 427,131	$ 339,077	$ 260,373
Restricted Fund Balance	2,419,865	2,864,380	2,755,472	1,584,342	1,332,952
Assigned Fund Balance	4,481,225	4,858,093	4,281,994	3,788,540	3,377,026
Unassigned Fund Balance	4,125,330	4,639,768	5,476,712	5,559,364	7,633,308
Total Fund Balance	$ 11,369,688	$ 12,816,680	$ 12,941,309	$ 11,271,323	$ 12,603,659
Unassigned Fund Balance as a Percentage of Expenditures	6.77%	7.00%	7.74%	7.04%	9.43%

The District's General Fund revenues exceeded expenditures by $1,332,336 for fiscal 2016, increasing total fund balance to $12,603,659 at June 30, 2016. Total fund balance includes a net of $1,335,093 in restricted accounts (UFARS basis), $260,373 in nonspendable accounts, and $3,377,026 in Board-assigned accounts as prescribed by state statute. That leaves an unassigned fund balance of $7,631,167 at year-end, which is 9.43% of total General Fund expenditures.

The increase in total revenue from fiscal 2015 to fiscal 2016 of $4.98 million can be primarily attributed to enrollment growth, general education formula improvement of $117 per pupil unit and improved funding related to the state special education program.

General Fund expenditures for fiscal 2016 were $80,911,482 which represents an increase of $1,968,098 or 2.5% from fiscal 2015.

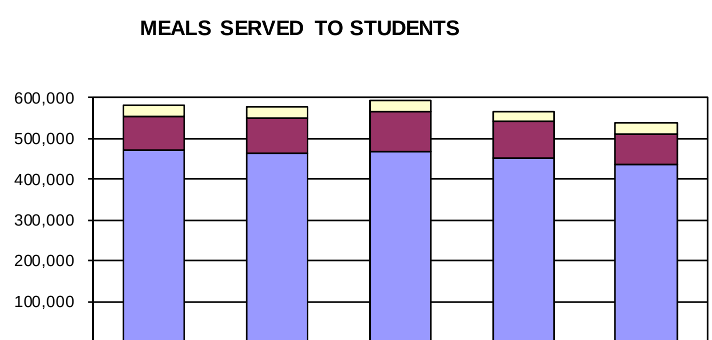
Food Service Fund

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

	Year Ended				
	2012	2013	2014	2015	2016
Revenues	$ 3,312,294	$ 3,494,798	$ 3,683,212	$ 3,784,310	$ 4,374,888
Expenditures	3,297,668	3,418,305	3,585,921	3,779,723	4,157,105
Excess Revenues Over Expenditures	14,626	76,493	97,291	4,587	217,783
Fund Balance: Beginning of Year	390,919	405,545	482,038	579,329	583,916
End of Year	$ 405,545	$ 482,038	$ 579,329	$ 583,916	$ 801,699
Lunches Served to Students	581,095	578,670	593,215	566,799	537,633
Revenue per Lunch Served	$ 5.70	$ 6.04	$ 6.21	$ 6.68	$ 8.14

Total revenues exceeded total expenditures by $217,783 in the District's Food Service Fund for 2016, increasing fund balance to $801,699 at June 30, 2016. The ending fund balance represents 19.29% 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 $598,888 while total expenditures were $182,605 more than the budgeted amount. The net impact of these variances was to increase the fund balance of the Food Service Fund by $416,283 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:



	2012	2013	2014	2015	2016
Reduced Meals	27,307	28,959	27,681	25,563	25,197
Free Meals	81,448	84,820	96,313	90,276	75,685
Full-Price Meals	472,340	464,891	469,221	450,960	436,751
Total meals served	581,095	578,670	593,215	566,799	537,633

Community Service Fund

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

	Year Ended June 30,				
	2012	2013	2014	2015	2016
Revenues	$ 4,932,936	$ 5,018,840	$ 5,151,796	$ 5,002,729	$ 6,004,092
Expenditures	4,582,419	5,114,750	5,210,982	4,774,965	5,644,342
Excess (Deficiency) of Revenues Over (Under) Expenditures	350,517	(95,910)	(59,186)	227,764	359,750
Fund Balance:					
Beginning of Year	994,221	1,344,738	1,248,828	1,189,642	1,417,406
End of Year	$ 1,344,738	$ 1,248,828	$ 1,189,642	$ 1,417,406	$ 1,777,156
Fund Balance:					
Nonspendable	$ 3,433	$ 3,982	$ 18,359	$ 19,561	$ 27,635
Restricted for Community Ed	1,075,740	1,155,620	1,073,797	1,153,519	1,236,296
Restricted for ECFE	126,578	27,864	79,266	187,340	278,696
Restricted for School Readiness	124,160	32,038	16,815	46,968	234,370
Restricted for Adult Basic Ed	-	-	1,405	1,405	151
Restricted for Other Purposes	14,827	29,324	-	8,613	8
Total Fund Balance	$ 1,344,738	$ 1,248,828	$ 1,189,642	$ 1,417,406	$ 1,777,156

The District's Community Service Fund total revenues exceeded expenditures by $359,750 for fiscal 2016, bringing the combined fund balance to $1,777,156 at June 30, 2016. Total revenue was more than the final budgeted amount by $248,529 while total expenditures were $94,349 more than the budgeted amount. The net impact of these variances was to increase the fund balance of the Community Service Fund by $154,180 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 2015	Statewide Seven County Metro Area 2015	Statewide Enrollment > than 4,000 2015	ISD No. 719 Prior Lake - Savage Area Schools 2014	ISD No. 719 Prior Lake - Savage Area Schools 2015	ISD No. 719 Prior Lake - Savage Area Schools 2016
District and School Admin and Support Services	$ 991	$ 951	$ 913	$ 554	$ 774	$ 791
Regular Instruction (including Co- & Extra-Curricular)	5,266	5,635	5,477	4,400	4,767	4,793
Vocational Instruction (Career & Technical)	140	136	141	77	87	83
Special Education Instruction	2,050	2,196	2,231	1,783	1,821	1,827
Instructional Support Services	572	689	666	711	593	602
Pupil Support Services (excluding Transportation)	326	393	382	247	268	261
Pupil Transportation	663	679	659	496	501	472
Operations & Maintenance and Other	868	832	843	758	732	704
Food Service	525	523	523	471	491	505
Community Service	521	642	612	696	621	700
Capital Expenditure (excluding Building Constr Fund)	649	493	510	476	686	459
Debt Service	1,406	1,701	1,465	1,855	2,133	1,587
Total Pre-K - 12 Operating Expenditures	$ 13,977	$ 14,870	$ 14,422	$ 12,524	$ 13,471	$ 12,783
Percent Change from Prior Year				4.24%	7.56%	-5.11%

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

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 10-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.

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% 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.

APPENDIX C (CONTINUED)

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% 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.

APPENDIX D

TECHNICAL UPDATE

TECHNICAL UPDATES

Understanding Governmental Accounting Standards Board (GASB) Statements Nos. 68 and 71 Pension Accounting and Financial Reporting Rules

Given the significance of the impact the implementation of GASB Statements Nos. 68 and 71 has had on the District's financial statements for the fiscal years ended June 30, 2016 and 2015, we have prepared this summary based on materials made available by as well as by the Public Employees Retirement Association of Minnesota. In Minnesota, substantially all school district employees are required by state law to belong to pension plans administered by either Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA) which are both administered on a statewide basis depending on certain criteria such as licensing. The new requirements fundamentally changed the way state and local governments and school districts account for public pension liabilities and expenses. It was designed to improve the decision-usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. For fiscal 2016, year-end pension balances for TRA were also impacted by the merger of the Duluth Teachers Retirement Fund Association with TRA effective June 30, 2015.

The new pension accounting and financial reporting requirements impact governments that prepare financial statements in accordance with generally accepted accounting principles in three major ways:

- First, school districts now report their proportionate share of the unfunded pension liability of the TRA and PERA statewide pension plans, referred to as the net pension liability or NPL, on their government-wide financial statements. The NPL is the difference between the present value of future pension benefit payments to employees and the amount of plan assets currently available to pay the future pension benefits. TRA and PERA allocate the NPL to participating employers. Both TRA and PERA calculate each employer's proportionate share of the NPL based on the employer's contributions to the pension plan as a percentage of the total of all employers' contributions to the plan.
- Second, pension expense is calculated differently and is no longer tied to contributions. In the past, pension expense was equal to the amount of employer contributions paid to TRA and PERA. As long as employers paid the contributions as required by state statutes, employers did not report a pension liability on their financial statements. Under the new requirements, pension expense is equal to the change in the NPL from the prior year to the current year (with some adjustments for deferred amounts). Pension expense is calculated by TRA's and PERA's respective actuary, and similar to the allocation of the NPL, both TRA and PERA allocate pension expense and deferred amounts to participating employers each year.
- Third, employers are now required to include fairly extensive pension footnote disclosures and pension-related schedules as Required Supplementary Information. The GASB believes the additional pension information better informs financial statement users how the pension liability changes over time and what economic events and assumptions impacted the changes in the liability.

Most importantly, the GASB concluded that, for financial reporting purposes, governments using the accrual method of accounting need to account for pension liabilities the same way they account for any other liabilities, that is, when the goods or services are received, not when they are paid for. GASB Statement No. 68 requires governments to recognize pension liabilities when their employees provide the services to the government, not when contributions are paid to the pension plan to pay for future benefits. Prior to GASB Statement No. 68, governments only recognized the contributions they made to the pension plan as pension expense. They did not report the pension benefits their employees earned during the period that would be paid in the future.

APPENDIX D (CONTINUED)

The pension liabilities are quite significant and in many cases have resulted in a negative net position on the Government-wide Statement of Net Position (i.e. balance sheet). A negative net position does not necessarily indicate a school district will not be able to pay for its current obligations but it could be an indication that the school district may not be able to meet its long-term obligations in the future.

Key Talking Points

- The implementation of GASB Statements Nos. 68 and 71 is the first time under governmental accounting that a liability has been added to the school district's district-wide financial statements that was not as a result of an action of the local school board. The local school board had no responsibility to negotiate the terms of the statewide pension plans since this is determined by the state legislature.

- It is important to note that the NPL will not impact the fund balance of a school district's operating funds (General, Food Service, Community Service, etc.). The new accounting standards require that the NPL only be reported on the government-wide financial statements, which are prepared on the accrual basis.

- Bond rating agencies have been aware of the funding policies and status of governmental pension plans. They have historically incorporated that information into their analysis of a government's ability to meet its debt obligations already.

- Governments will continue to pay off unfunded pension liabilities in the same way that they always have. The timing of when pension plans will be funded does not change as a result of the new accounting and financial reporting requirements. Although governments will be reporting their proportionate share of the NPL on their government-wide financial statements, they will not be solely responsible for paying off those liabilities. In Minnesota, employers, employees, and retirees all share the responsibility to pay off unfunded pension liabilities. In addition, investment earnings on contributions fund the majority of pension benefits in Minnesota.

- The new accounting standards will not result in increases to employer pension contributions. Contribution rates will continue to be set in Minnesota Statutes and will continue to be determined based on traditional actuarial funding valuations. The Minnesota Legislature will make future decisions about required pension contributions based on the traditional funding actuarial valuations and not on the new accounting standards.

- School districts will not need to budget more for pension expenses under the new requirements. While the NPL will be reported on the school district's financial statements, there is no expectation that school districts pay off the liability within a budget cycle or limited number of budget cycles. The pension liabilities are similar to a home mortgage: homeowners pay off the mortgage gradually over time and are not expected to pay off the mortgage upon purchasing a home. In fact, there is no ability for an individual unit of government to pay off their portion of the unfunded liability even it wanted to and had the resources to do so. So the only real difference is that governments now report the outstanding balance of their "mortgage" as a liability on their financial statements.

- Pension plans in Minnesota are in fairly good shape financially. Minnesota pension plans also have a positive standing nationwide in terms of funding and pension reform efforts. In recent years the Minnesota Legislature has enacted various pension reforms to ensure state pension plans remain financially viable and pension benefits remain sustainable.

- The amount of government resources spent on public pensions will not change as a result of the new pension accounting requirements. Nationwide, public pensions currently account for about 3.7% of state and local government spending whereas they only account for approximately 2% of government spending in Minnesota.

GASB Statement No. 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, GASB Statement No. 68 requires that the school district recognize its contribution as a deferred outflow of resources. In addition, GASB Statement No. 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. Individual items making up deferred inflows and deferred outflows for current and prior years are carefully tracked due to the varying periods over which amounts are required to be amortized into pension expense.

GASB Statement No. 72 – Fair Value Measurement and Application

In response to stakeholders requesting more clarity regarding Fair Value standards, GASB developed new guidance by issuing GASB Statement No. 72 which was implemented for the fiscal year ended June 30, 2016. The new guidance is designed to provide additional information regarding the measurement of Assets and Liabilities and to help financial statement readers make better, more informed decisions. GASB Statement No. 72, *Fair Value Measurement and Application*, defines Fair Value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Currently, state and local governments are required to disclose how the value of an asset or liability is determined or measured. For disclosure purposes, Statement No. 72, however, now requires governments to categorize Fair Values based on the criteria of the Fair Value Hierarchy.

An investment is a security or other asset that a government holds primarily for the purpose of income or profit and has a present service capacity based on its ability to generate cash. GASB Statement No. 72 requires governments to use a consistent valuation technique based on one of following three approaches: the market approach, the cost approach, or the income approach. The market approach uses quoted market prices for identical or similar assets and liabilities in most instances, but additional techniques such as the multiples and matrix techniques can also be applied. The cost approach is a technique that considers the dollar amount to replace the asset with a similar asset or substitute. Lastly, the income approach considers the future amounts of revenue or cash flows and converts the amounts to a single value with techniques such as the discounted present value, the option pricing model, and the multi-period excess earnings technique. The Statement specifies that the selected approach should be used consistently, but changes may be appropriate depending on the circumstances.

The Fair Value Hierarchy is categorized into three levels based on reliability. Level 1 inputs, the first and most reliable level, are quoted prices for assets or liabilities in active markets that governments can access at a particular date. Level 2 inputs are those that are directly or indirectly observable but lack quoted prices in active markets. Level three inputs are the lowest level of reliability. Level three inputs are prices that cannot be observed. It is important to note that if an asset or liability is measured using more than one input, the government must categorize the item at the lowest of the inputs used.

Due to the need for increased transparency in government reporting, GASB Statement No. 72 addresses the issues related to Fair Value reporting and provides guidance for governments on measuring assets and liabilities and the reliability of those measurements. Financial statement readers will now be able to determine how the values of the government's assets and liabilities were measured and how reliable the measurements are.

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

The issuance of GASB Statement No. 73 completes the suite of pension standards. GASB Statement No. 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 GASB Statements Nos. 67 and 68). The requirements in GASB Statement No. 73 for reporting pensions generally are the same as in GASB Statement No. 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 GASB Statement No. 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 GASB Statement No. 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 Statement No. 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 GASB Statement No. 43 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. GASB Statement No. 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 Statement No. 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.

APPENDIX D (CONTINUED)

GASB Statement No. 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 Statement No. 75 requires these governments to recognize in their financial statements a share of the other government's net OPEB liability. The provisions in GASB Statement No. 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 GASB 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 GASB Statement No. 31, as amended. In Minnesota, the Board of Trustees of the MSDLAF+ Portfolio approved the adoption of GASB Statement No. 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 Statement No. 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.

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, 2016, and have issued our report thereon dated September 26, 2016. 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

Accounting policies

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

No new accounting policies were adopted and the application of existing policies was not changed during 2016.

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.

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:

Qualitative aspects of accounting practices (continued)

<u>Accounting estimates (continued)</u>

- Due from Minnesota Department of Education
- Due from other Minnesota school districts
- 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 2016. 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 2016 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 other Minnesota school districts is based on amounts that have been billed to other school districts under the excess special education cost tuition billing system. The school has made a good faith effort to accurately calculate such amounts billed, but until the resident school district has an opportunity to review such underlying details as membership days, disability codes, and rates, it will not be known whether such amounts will be collected or not. Management expects any difference between amounts billed and amounts ultimately collected 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 2016. 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. 27.

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 Nos. 68 and 71 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.

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

Management representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2016.

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 September 26, 2016, 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 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 26, 2016.

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 26, 2016.

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.

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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 26, 2016

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APPENDIX F

INDEPENDENT AUDITORS' REPORT ON CONDENSED FINANCIAL STATEMENTS INCLUDED HEREIN

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

Report on the Financial Statements

We have audited the financial statements of Independent School District No. 719 (the District) as of and for the years ended June 30, 2016, 2015, 2014, 2013, and 2012.

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 audits. 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

Minneapolis, Minnesota
September 26, 2016