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CliftonLarsonAllen LLP  
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September 27, 2018

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, 2018**

**PRIOR LAKE-SAVAGE AREA SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 719  
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JUNE 30, 2018**

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**EXECUTIVE AUDIT SUMMARY (EAS)  
FOR  
PRIOR LAKE-SAVAGE AREA SCHOOLS  
YEAR ENDED JUNE 30, 2018**

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, 2018.

**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 reported in our review of laws, regulations, contracts, and grants that could have significant financial implications to the District.

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

**Single Audit** – As part of the Single Audit we tested the District's compliance with requirements of the major federal programs (Child Nutrition and Special Education). The District complied with all direct and material requirements. One significant deficiency was reported for the Special Education Cluster for cell phone allowances.

**Legal Compliance** – One compliance issue was reported with respect to Minnesota Statutes for the lack of prompt payment of one bill.

**Enrollment** – For fiscal 2017-2018 Prior Lake-Savage Area Schools served an estimated total adjusted average daily membership of 8,606.86 (or 9,425.48 adjusted pupil units). For fiscal 2016-2017, Prior Lake-Savage Area Schools had an estimated total adjusted average daily membership of 8,384.83 (or 9,185.67 adjusted pupil units).

**Fund Balance** – The School's General Fund unassigned fund balance for UFARS reporting purposes increased by \$697,155 during fiscal year 2018, increasing from \$8,623,266 to \$9,320,421. Total fund balance of the General Fund increased by \$848,167, ending at \$16,337,159 as of June 30, 2018. The total ending unassigned fund balance represents 10.2% 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 \$1,150,759 (or 1.3%) higher than the budgeted amount while total expenditures were \$1,267,638 (or 1.4%) lower than had been budgeted. The net effect was an increase in total fund balance that was \$2,418,397 more than had been reflected in the District's budget. The majority of the expenditure budget variance relates to capital outlay timing differences as well as unexpended amounts that are subject to site carryover.

**OPEB Internal Service Fund** – The District's OPEB Revocable Trust Internal Service fund has not reimbursed the District's governmental funds for the cost of other postemployment benefits paid to retirees by those funds for the past five 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, 2018**

| FUND DESCRIPTION                             | 6/30/17<br>AUDITED<br>BALANCE | 2017-18<br>AUDITED<br>REVENUES | 2017-18<br>AUDITED<br>EXPENDITURES | TRANSFERS<br>OUT OF<br>FUNDS | 6/30/18<br>AUDITED<br>BALANCE |
|--|-------------------------------|--------------------------------|------------------------------------|------------------------------|-------------------------------|
| <b>GENERAL FUND</b>                          |                               |                                |                                    |                              |                               |
| <b>A. UNASSIGNED - OPERATING</b>             | \$8,623,266                   | \$84,108,229                   | \$82,979,645                       | (\$431,429)                  | \$9,320,421                   |
| As a percentage of current year expenditures | 10.1%                         |                                |                                    |                              | 10.2%                         |
| <b>B. NONSPENDABLE FOR</b>                   |                               |                                |                                    |                              |                               |
| PREPAIDS                                     | \$181,039                     | \$0                            | \$74,552                           |                              | \$106,487                     |
| INVENTORY                                    | \$95,534                      | \$111,912                      | \$0                                |                              | \$207,446                     |
| TOTAL NONSPENDABLE                           | \$276,573                     | \$111,912                      | \$74,552                           | \$0                          | \$313,933                     |
| <b>C. ASSIGNED FOR</b>                       |                               |                                |                                    |                              |                               |
| SPECIAL EDUCATION STIMULUS                   | \$0                           | \$0                            | \$0                                |                              | \$0                           |
| CASHFLOW                                     | \$1,722,500                   | \$0                            | \$0                                |                              | \$1,722,500                   |
| CLASS-SIZE REDUCTION                         | \$500,000                     | \$0                            | \$0                                |                              | \$500,000                     |
| INNOVATION DOLLARS                           | \$420,000                     | \$0                            | \$0                                |                              | \$420,000                     |
| Q-COMP                                       | \$413,754                     | \$0                            | \$178,954                          |                              | \$234,800                     |
| SITE CARRYOVER                               | \$534,756                     | \$109,012                      | \$0                                |                              | \$643,768                     |
| TOTAL ASSIGNED                               | \$3,591,010                   | \$109,012                      | \$178,954                          | \$0                          | \$3,521,068                   |
| <b>D. RESTRICTED FOR</b>                     |                               |                                |                                    |                              |                               |
| STAFF DEVELOPMENT                            | \$226,347                     | \$1,166,449                    | \$1,244,033                        | \$0                          | \$148,763                     |
| MEDICAL ASSISTANCE                           | \$0                           | \$307,698                      | \$173,815                          | \$0                          | \$133,883                     |
| DEFERRED MAINTENANCE                         | \$0                           | \$0                            | \$0                                | \$0                          | \$0                           |
| LONG-TERM FACILITIES MAINTENANCE             | \$740,005                     | \$1,146,709                    | \$617,992                          | \$0                          | \$1,268,722                   |
| OPERATING CAPITAL                            | \$1,551,746                   | \$2,404,180                    | \$2,410,660                        | \$0                          | \$1,545,266                   |
| HEALTH & SAFETY                              | \$219,620                     | (\$219,620)                    | \$0                                | \$0                          | \$0                           |
| LEARNING AND DEVELOPMENT                     | \$0                           | \$1,926,787                    | \$1,926,787                        | \$0                          | \$0                           |
| GIFTED AND TALENTED                          | \$0                           | \$122,526                      | \$291,017                          | \$168,491                    | \$0                           |
| BASIC SKILLS                                 | \$0                           | \$648,354                      | \$704,439                          | \$56,085                     | \$0                           |
| CAREER AND TECHNICAL                         | \$0                           | \$100,527                      | \$460,335                          | \$359,808                    | \$0                           |
| SAFE SCHOOLS                                 | \$107,470                     | \$353,915                      | \$386,794                          | \$0                          | \$74,591                      |
| ACHIEVEMENT AND INTEGRATION                  | \$152,955                     | \$23,313                       | \$12,801                           | (\$152,955)                  | \$10,512                      |
| TOTAL RESTRICTED                             | \$2,998,143                   | \$7,980,838                    | \$8,228,673                        | \$431,429                    | \$3,181,737                   |
| BUDGET                                       |                               | \$91,159,232                   | \$92,729,462                       | \$0                          | \$13,918,762                  |
| <b>TOTAL GENERAL FUND</b>                    | <b>\$15,488,992</b>           | <b>\$92,309,991</b>            | <b>\$91,461,824</b>                | <b>\$0</b>                   | <b>\$16,337,159</b>           |
| DIFFERENCE                                   |                               | \$1,150,759                    | (\$1,267,638)                      | \$0                          | \$2,418,397                   |
| % VARIANCE                                   |                               | 1.26%                          | -1.37%                             |                              |                               |

I. FINANCIAL RESULTS (CONTINUED)

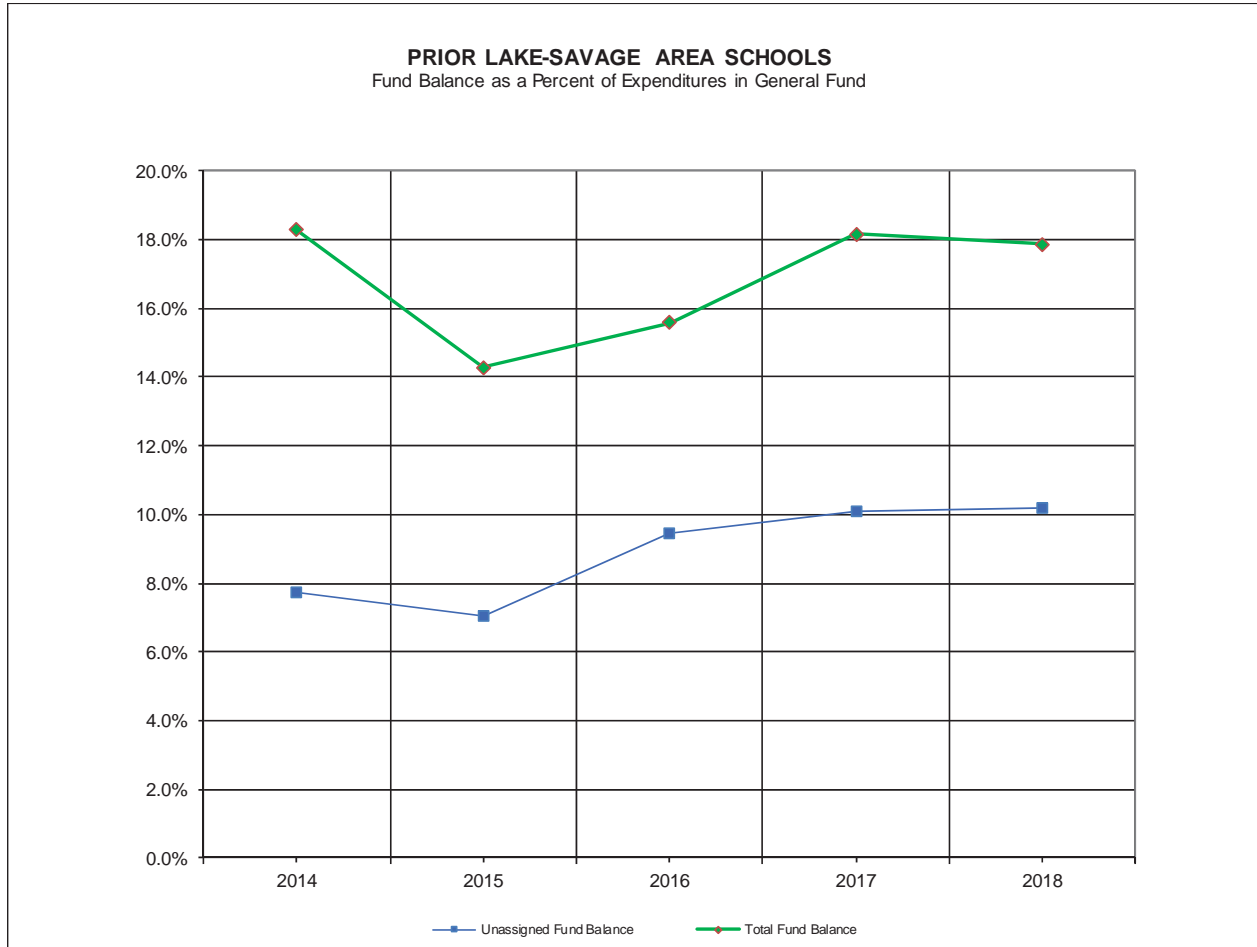
**AUDITED FUND BALANCES THROUGH JUNE 30, 2018**

| FUND DESCRIPTION                  | 6/30/17<br>AUDITED<br>BALANCE | 2017-18<br>AUDITED<br>REVENUES | 2017-18<br>AUDITED<br>EXPENDITURES | TRANSFERS<br>OUT OF<br>FUNDS | 6/30/18<br>AUDITED<br>BALANCE |
|-----------------------------------|-------------------------------|--------------------------------|------------------------------------|------------------------------|-------------------------------|
| <b>FOOD SERVICE</b>               |                               |                                |                                    |                              |                               |
| NONSPENDABLE FOR INVENTORY        | \$57,994                      | \$27,082                       | \$0                                |                              | \$85,076                      |
| NONSPENDABLE FOR PREPAID ITEMS    | \$10,184                      | \$5,533                        | \$0                                |                              | \$15,717                      |
| RESTRICTED FOR FOOD SERVICE PROG  | \$779,833                     | \$4,679,179                    | \$4,440,661                        |                              | \$1,018,351                   |
| BUDGET                            |                               | \$4,596,695                    | \$4,554,721                        |                              | \$889,985                     |
| <b>FOOD SERVICE</b>               | <b>\$848,011</b>              | <b>\$4,711,794</b>             | <b>\$4,440,661</b>                 | <b>\$0</b>                   | <b>\$1,119,144</b>            |
| DIFFERENCE                        |                               | \$115,099                      | (\$114,060)                        |                              | \$229,159                     |
| % VARIANCE                        |                               | 2.50%                          | -2.50%                             |                              |                               |
| <b>COMMUNITY EDUCATION</b>        |                               |                                |                                    |                              |                               |
| NONSPENDABLE FOR PREPAID ITEMS    | \$29,776                      | \$3,833                        | \$0                                | \$0                          | \$33,609                      |
| <b>A. RESTRICTED FOR</b>          |                               |                                |                                    |                              |                               |
| COMMUNITY EDUCATION PROGRAMS      | \$1,073,860                   | \$5,318,611                    | \$5,792,832                        | \$5,135                      | \$594,504                     |
| ECFE PROGRAMS                     | \$361,349                     | \$539,314                      | \$471,189                          |                              | \$429,474                     |
| ADULT BASIC EDUCATION             | \$0                           | \$39,285                       | \$39,285                           |                              | \$0                           |
| SCHOOL READINESS                  | \$224,840                     | \$828,535                      | \$951,959                          |                              | \$101,416                     |
| OTHER PURPOSES                    | \$0                           | \$110,003                      | \$115,138                          | (\$5,135)                    | \$0                           |
| BUDGET                            |                               | \$7,259,401                    | \$7,491,287                        | \$0                          | \$1,457,939                   |
| <b>TOTAL COMMUNITY EDUCATION</b>  | <b>\$1,689,825</b>            | <b>\$6,839,581</b>             | <b>\$7,370,403</b>                 | <b>\$0</b>                   | <b>\$1,159,003</b>            |
| DIFFERENCE                        |                               | (\$419,820)                    | (\$120,884)                        |                              | (\$298,936)                   |
| % VARIANCE                        |                               | -5.78%                         | -1.61%                             |                              |                               |
| BUDGET                            |                               | \$109,874,835                  | \$8,123,100                        | (\$10,000)                   | \$112,787,169                 |
| <b>TOTAL BUILDING FUND - LTFM</b> | <b>\$11,045,434</b>           | <b>\$110,357,453</b>           | <b>\$8,617,151</b>                 | <b>\$10,000</b>              | <b>\$112,795,736</b>          |
| DIFFERENCE                        |                               | \$482,618                      | \$494,051                          | \$20,000                     | \$8,567                       |
| <b>DEBT SERVICE</b>               |                               |                                |                                    |                              |                               |
| OPERATING                         | \$1,329,278                   | \$13,228,860                   | \$12,560,206                       | \$10,000                     | \$2,007,932                   |
| BUDGET                            |                               | \$12,996,595                   | \$12,560,207                       | \$10,000                     | \$1,775,666                   |
| <b>TOTAL DEBT SERVICE</b>         | <b>\$1,329,278</b>            | <b>\$13,228,860</b>            | <b>\$12,560,206</b>                | <b>\$10,000</b>              | <b>\$2,007,932</b>            |
| DIFFERENCE                        |                               | \$232,265                      | (\$1)                              | \$0                          | \$232,266                     |
| % VARIANCE                        |                               | 1.79%                          | 0.00%                              |                              |                               |
| <b>PROPRIETARY FUNDS</b>          |                               |                                |                                    |                              |                               |
| OPEB REVOCABLE TRUST              | \$7,707,967                   | \$770,613                      | \$0                                | \$0                          | \$8,478,580                   |
| SELF-INSURANCE ACCOUNTS           | \$4,209,098                   | \$13,413,147                   | \$13,234,859                       | \$0                          | \$4,387,386                   |
| <b>TOTAL PROPRIETARY</b>          | <b>\$11,917,065</b>           | <b>\$14,183,760</b>            | <b>\$13,234,859</b>                | <b>\$0</b>                   | <b>\$12,865,966</b>           |
| <b>TOTAL</b>                      | <b>\$42,318,605</b>           | <b>\$241,631,439</b>           | <b>\$137,685,104</b>               | <b>\$20,000</b>              | <b>\$146,284,940</b>          |

# I. FINANCIAL RESULTS (CONTINUED)

## Fund Balances of the General Fund

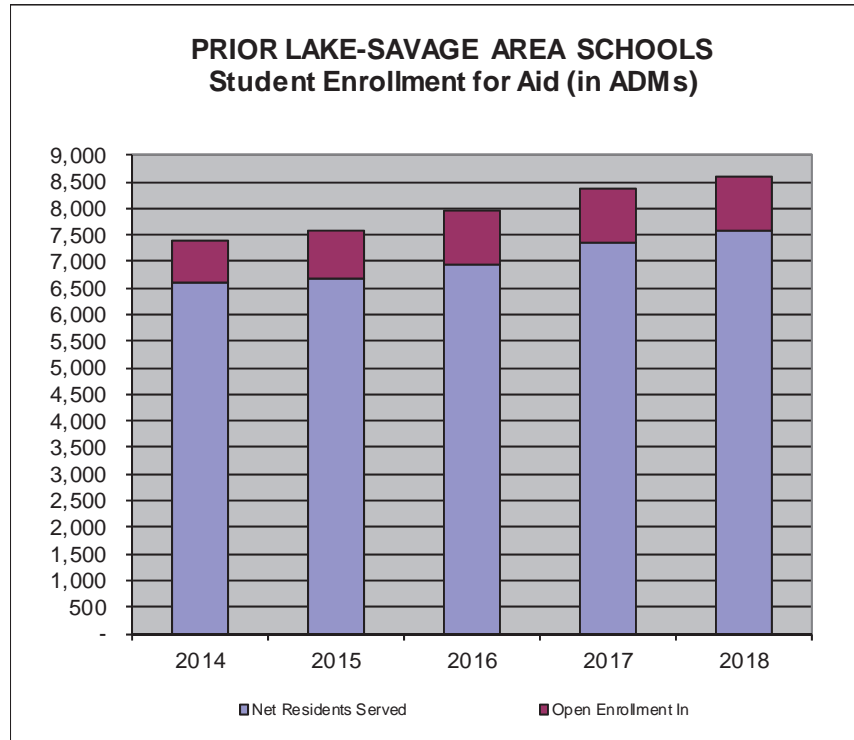
Unless otherwise noted, all graphs and charts reflect the combined activity of the District's General Fund.



## I. FINANCIAL RESULTS (CONTINUED)

### Students Served for Aid

|                             | 2014     | 2015     | 2016     | 2017     | 2018     |
|-----------------------------|----------|----------|----------|----------|----------|
| Total Residents             | 7,387.31 | 7,472.04 | 7,683.53 | 8,079.10 | 8,265.59 |
| Open Enrollment Out*        | (799.29) | (793.24) | (731.29) | (724.18) | (692.98) |
| Net Residents Served        | 6,588.02 | 6,678.80 | 6,952.24 | 7,354.92 | 7,572.61 |
| Open Enrollment In          | 814.24   | 911.60   | 1,010.12 | 1,029.91 | 1,034.25 |
| Net ADM Served              | 7,402.26 | 7,590.40 | 7,962.36 | 8,384.83 | 8,606.86 |
| * including charter schools |          |          |          |          |          |
| Net Pupil Units Served      | 8,580.88 | 8,318.24 | 8,742.24 | 9,185.67 | 9,425.48 |



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 nonresident students opted into the District through open enrollment than resident students opting out, including those lost to charter schools and this very positive trend has continued to improve dramatically through fiscal 2018.



## 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,         |                     |
|--|------------------------|---------------------|
|  | 2018                   | 2017                |
| Total Fund Balance for Governmental Funds                          | \$ 133,408,974         | \$ 30,401,540       |
| Capital Assets, Less Accumulated Depreciation                      | 167,374,782            | 163,713,569         |
| Long-Term Liabilities  | (225,775,125)          | (126,258,698)       |
| Other District Pension and Postemployment Benefits Liability - Net | (11,037,548)           | (4,152,670)         |
| Net Pension Liability  | (161,421,589)          | (185,465,613)       |
| Deferred Inflows/Outflows for Pensions - Net                       | 67,715,280             | 116,255,591         |
| Other - Net  | 9,503,426              | 9,232,394           |
| Total Net Position - Governmental Activities                       | <u>\$ (20,231,800)</u> | <u>\$ 3,726,113</u> |
| Net Position   |                        |                     |
| Net Investment in Capital Assets                                   | \$ 44,587,428          | \$ 37,303,408       |
| Restricted   | 15,096,644             | 15,690,859          |
| Unrestricted   | (79,915,872)           | (49,268,154)        |
| Total Net Position - Governmental Activities                       | <u>\$ (20,231,800)</u> | <u>\$ 3,726,113</u> |

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 noncapital 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.

## II. OTHER KEY TOPICS (CONTINUED)

### 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 2018 and 2017:

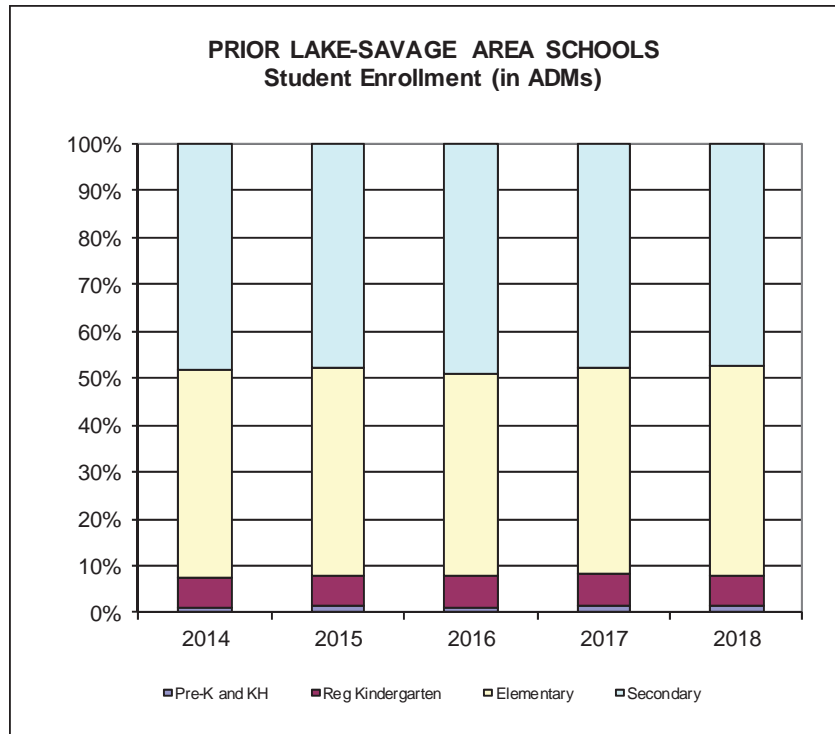
|   | As of June 30,         |                        |
|---|------------------------|------------------------|
|   | 2018                   | 2017                   |
| Net Change in Fund Balance - Total Governmental Funds | \$ 103,007,434         | \$ (10,831,190)        |
| Capital Asset Purchases                               | 9,934,906              | 1,384,111              |
| Depreciation  | (6,273,693)            | (5,932,421)            |
| Debt Proceeds   | (107,639,049)          | (11,480,000)           |
| Repayment of Debt                                     | 8,912,571              | 33,026,057             |
| Change in Other Long-Term Liabilities                 | (1,533,472)            | 464,188                |
| Pension Expenses                                      | (24,279,159)           | (23,334,589)           |
| Other - Net   | 652,220                | 1,378,133              |
| Change in Net Position - Governmental Activities      | <u>\$ (17,218,242)</u> | <u>\$ (15,325,711)</u> |

# APPENDIX A

## FINANCIAL TRENDS OF YOUR DISTRICT

Within this report there are a number of areas where condensed financial statement data has been presented.

### Student Enrollment



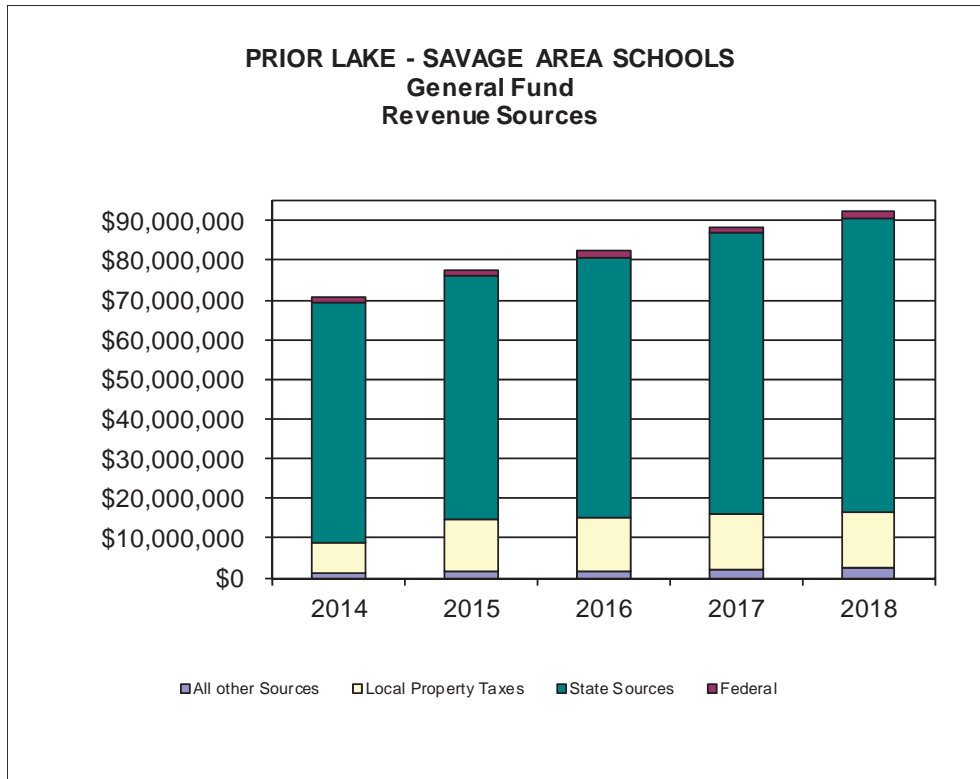
|                  | 2014            | 2015            | 2016            | 2017            | 2018            |
|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Pre-K and KH     | 76.25           | 99.67           | 90.53           | 119.70          | 120.49          |
| Reg Kindergarten | 483.03          | 489.03          | 531.53          | 564.30          | 560.68          |
| Elementary       | 3,274.54        | 3,362.60        | 3,440.93        | 3,696.54        | 3,832.55        |
| Secondary        | 3,568.44        | 3,639.10        | 3,899.37        | 4,004.29        | 4,093.14        |
| Net ADM Served   | <u>7,402.26</u> | <u>7,590.40</u> | <u>7,962.36</u> | <u>8,384.83</u> | <u>8,606.86</u> |
| Percent Change   | 2.61%           | 2.54%           | 4.90%           | 5.31%           | 2.65%           |

As noted in the above chart, the District's student count for fiscal 2017-2018 was 222.03 students (or 2.65%) higher than the prior year.

**APPENDIX A (CONTINUED)**

**General Fund Revenue**

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



The table below illustrates the fluctuation that occurs between the taxes and state aid categories based on legislative activity. The Legislature determines what portion of the general education funding formula will be paid by local taxpayers. In addition, when the tax shift percentage changes or the state provides property tax relief, this only impacts the mix between state aids and taxes and does not change total revenue. For example, in fiscal 2014, the Legislature repaid a total of approximately \$5.0 million of the property tax shift buy-down for the General and Community Service Funds, which gives the appearance of a significant increase in taxes for 2015. For this and other reasons, school finance in Minnesota continues to be a very difficult subject to explain to the general public.

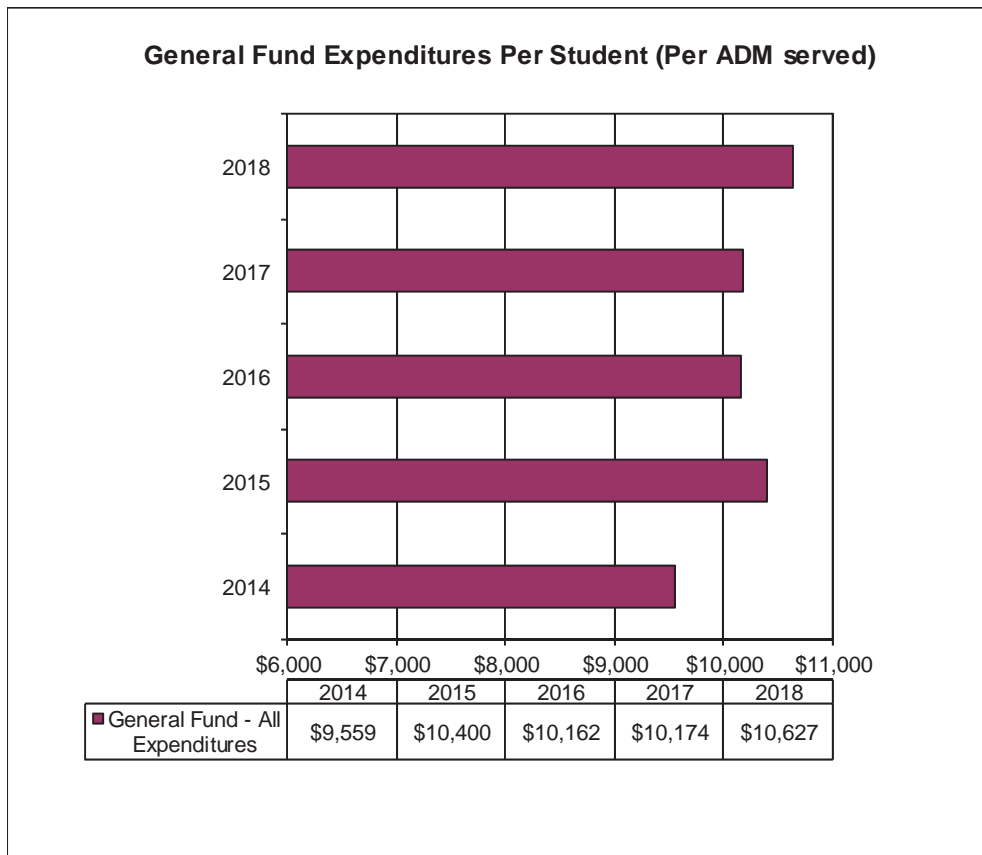
|                       | 2014                 | 2015                 | 2016                 | 2017                 | 2018                 |
|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Local Property Taxes  | \$ 7,466,027         | \$ 13,063,615        | \$ 13,477,228        | \$ 14,170,104        | \$ 14,051,809        |
| State Sources         | 60,577,804           | 61,166,707           | 65,571,124           | 70,692,619           | 74,007,130           |
| Federal Sources       | 1,509,050            | 1,313,872            | 1,663,413            | 1,445,497            | 1,904,067            |
| All Other Sources     | 1,330,896            | 1,710,060            | 1,532,053            | 1,881,950            | 2,346,985            |
| <b>Total Revenues</b> | <b>\$ 70,883,777</b> | <b>\$ 77,254,254</b> | <b>\$ 82,243,818</b> | <b>\$ 88,190,170</b> | <b>\$ 92,309,991</b> |

|                       | 2014        | 2015        | 2016        | 2017        | 2018        |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Local Property Taxes  | 11%         | 17%         | 16%         | 16%         | 15%         |
| State Sources         | 85%         | 79%         | 80%         | 80%         | 80%         |
| Federal Sources       | 2%          | 2%          | 2%          | 2%          | 2%          |
| All Other Sources     | 2%          | 2%          | 2%          | 2%          | 3%          |
| <b>Total Revenues</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

**APPENDIX A (CONTINUED)**

**Expenditures Per Student**

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

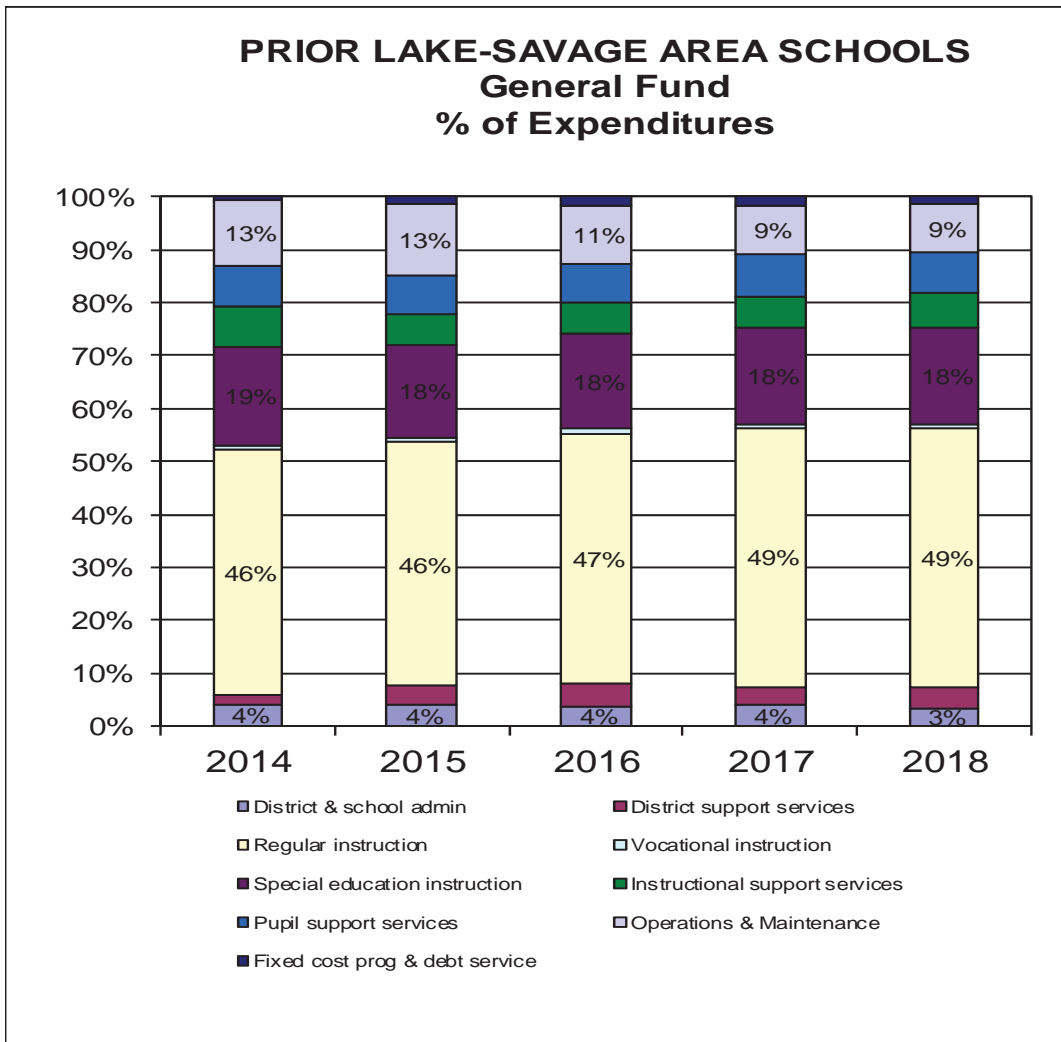


For fiscal 2018, the District expended \$453 more per student served than it had for fiscal 2017. This followed a year when the District expended \$12 more per student served in fiscal 2017 than it had for fiscal 2016. The majority of the additional costs incurred for fiscal 2018 relate to salaries and employee benefits.

**APPENDIX A (CONTINUED)**

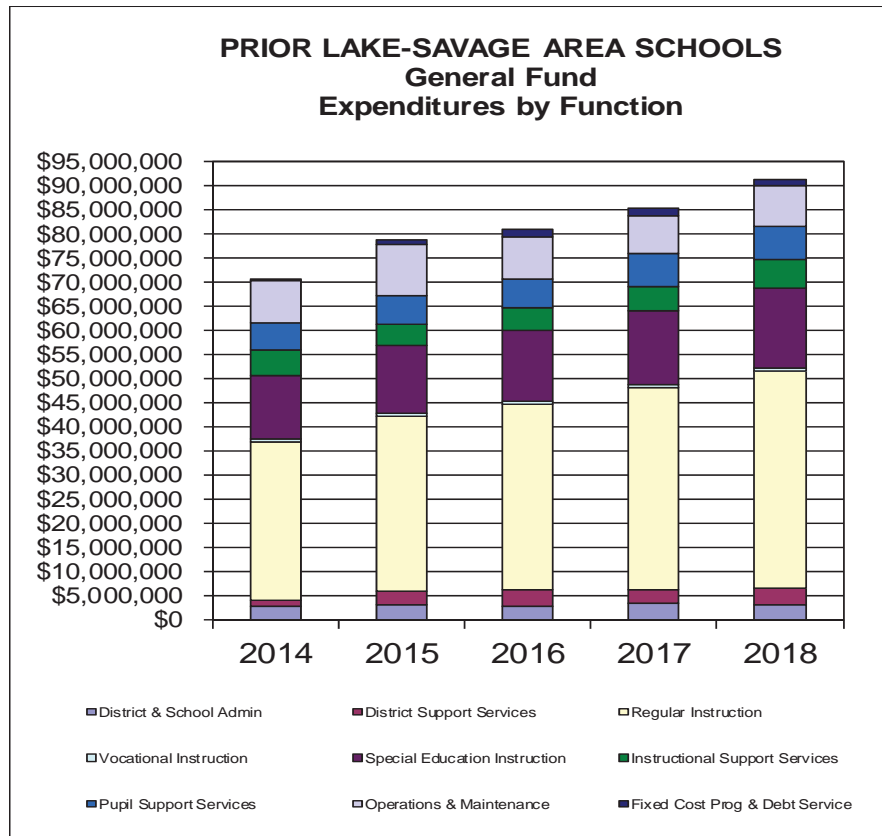
**Expenditures**

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



**APPENDIX A (CONTINUED)**

**Expenditures (Continued)**



|                                  | 2014                 | 2015                 | 2016                 | 2017                 | 2018                 |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| District and School Admin        | \$ 2,833,719         | \$ 3,055,111         | \$ 2,947,937         | \$ 3,290,901         | \$ 3,106,186         |
| District Support Services        | 1,295,669            | 2,858,468            | 3,386,416            | 3,002,180            | 3,395,533            |
| Regular Instruction              | 32,789,161           | 36,427,518           | 38,404,368           | 41,850,206           | 45,011,355           |
| Vocational Instruction           | 575,454              | 665,893              | 666,499              | 629,187              | 684,120              |
| Special Education Instruction    | 13,287,188           | 13,912,768           | 14,638,752           | 15,424,027           | 16,672,827           |
| Instructional Support Services   | 5,297,931            | 4,528,930            | 4,822,893            | 4,985,570            | 5,981,560            |
| Pupil Support Services           | 5,539,546            | 5,872,939            | 5,869,699            | 6,794,084            | 6,911,160            |
| Operations and Maintenance       | 8,848,378            | 10,492,273           | 8,866,015            | 8,024,162            | 8,364,225            |
| Fixed Cost Prog and Debt Service | 292,102              | 1,129,484            | 1,308,903            | 1,304,520            | 1,334,858            |
| <b>Total Expenditures</b>        | <b>\$ 70,759,148</b> | <b>\$ 78,943,384</b> | <b>\$ 80,911,482</b> | <b>\$ 85,304,837</b> | <b>\$ 91,461,824</b> |

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

|                           | 2018                 |                      |                       |              | 2017                 | 2016                 |
|---------------------------|----------------------|----------------------|-----------------------|--------------|----------------------|----------------------|
|                           | Final Amended Budget | Actual               | Over (Under) Budget   | %            | Actual               | Actual               |
| Salaries                  | \$ 53,323,971        | \$ 53,092,657        | \$ (231,314)          | -0.4%        | \$ 49,608,700        | \$ 46,172,053        |
| Employee Benefits         | 20,938,670           | 21,447,196           | 508,526               | 2.4%         | 20,301,083           | 18,750,542           |
| Purchased Services        | 11,234,074           | 10,898,662           | (335,412)             | -3.0%        | 9,871,909            | 8,993,952            |
| Supplies and Materials    | 3,031,100            | 2,522,217            | (508,883)             | -16.8%       | 2,114,898            | 2,330,235            |
| Capital Expenditures      | 2,944,348            | 2,269,565            | (674,783)             | -22.9%       | 2,252,801            | 3,527,014            |
| Other Expenditures        | 1,257,299            | 1,231,527            | (25,772)              | -2.0%        | 1,155,446            | 1,137,686            |
| <b>Total Expenditures</b> | <b>\$ 92,729,462</b> | <b>\$ 91,461,824</b> | <b>\$ (1,267,638)</b> | <b>-1.4%</b> | <b>\$ 85,304,837</b> | <b>\$ 80,911,482</b> |

On a net basis, total expenditures were 1.4% lower than reflected in the final amended budget, however, the majority of the budget variance relates to the timing of capital expenditure costs and site carryover amounts that will be incorporated into the revised budget for fiscal 2019.

## APPENDIX A (CONTINUED)

### 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, |               |               |               |               |
|---|---------------------|---------------|---------------|---------------|---------------|
|   | 2014                | 2015          | 2016          | 2017          | 2018          |
| Revenues  | \$ 70,883,777       | \$ 77,254,254 | \$ 82,243,818 | \$ 88,190,170 | \$ 92,309,991 |
| Expenditures  | 70,759,148          | 78,943,384    | 80,911,482    | 85,304,837    | 91,461,824    |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures                                | 124,629             | (1,689,130)   | 1,332,336     | 2,885,333     | 848,167       |
| Other Financing Sources:  |                     |               |               |               |               |
| Sale of Capital Assets  | -                   | 19,144        | -             | -             | -             |
| Excess (Deficiency) of Revenues<br>and Other Financing Sources<br>Over (Under) Expenditures | 124,629             | (1,669,986)   | 1,332,336     | 2,885,333     | 848,167       |
| Fund Balance:   |                     |               |               |               |               |
| Beginning of Year   | 12,816,680          | 12,941,309    | 11,271,323    | 12,603,659    | 15,488,992    |
| End of Year   | \$ 12,941,309       | \$ 11,271,323 | \$ 12,603,659 | \$ 15,488,992 | \$ 16,337,159 |
| Nonspendable Fund Balance   | \$ 427,131          | \$ 339,077    | \$ 260,373    | \$ 276,573    | \$ 313,933    |
| Restricted Fund Balance   | 2,755,472           | 1,584,342     | 1,332,952     | 2,998,143     | 3,181,737     |
| Assigned Fund Balance   | 4,281,994           | 3,788,540     | 3,377,026     | 3,591,010     | 3,521,068     |
| Unassigned Fund Balance   | 5,476,712           | 5,559,364     | 7,633,308     | 8,623,266     | 9,320,421     |
| Total Fund Balance  | \$ 12,941,309       | \$ 11,271,323 | \$ 12,603,659 | \$ 15,488,992 | \$ 16,337,159 |
| Unassigned Fund Balance<br>as a Percentage of Expenditures                                  | 7.74%               | 7.04%         | 9.43%         | 10.11%        | 10.19%        |

The District's General Fund revenues exceeded expenditures by \$848,167 for fiscal 2018, increasing total fund balance to \$16,337,159 at June 30, 2018. Total fund balance includes a net of \$3,181,737 in restricted accounts (UFARS basis), \$313,933 in nonspendable accounts, and \$3,521,068 in Board-assigned accounts as prescribed by state statute. That leaves an unassigned fund balance of \$9,320,421 at year-end, which is 10.19% of total General Fund expenditures.

The increase in total revenue from fiscal 2017 to fiscal 2018 of \$4.12 million can be primarily attributed to enrollment growth, general education formula improvement of \$121 per pupil unit and improved funding related to the state special education program.

General Fund expenditures for fiscal 2018 were \$91,461,824 which represents an increase of \$6,156,987 or 7.8% from fiscal 2017.



**APPENDIX A (CONTINUED)**

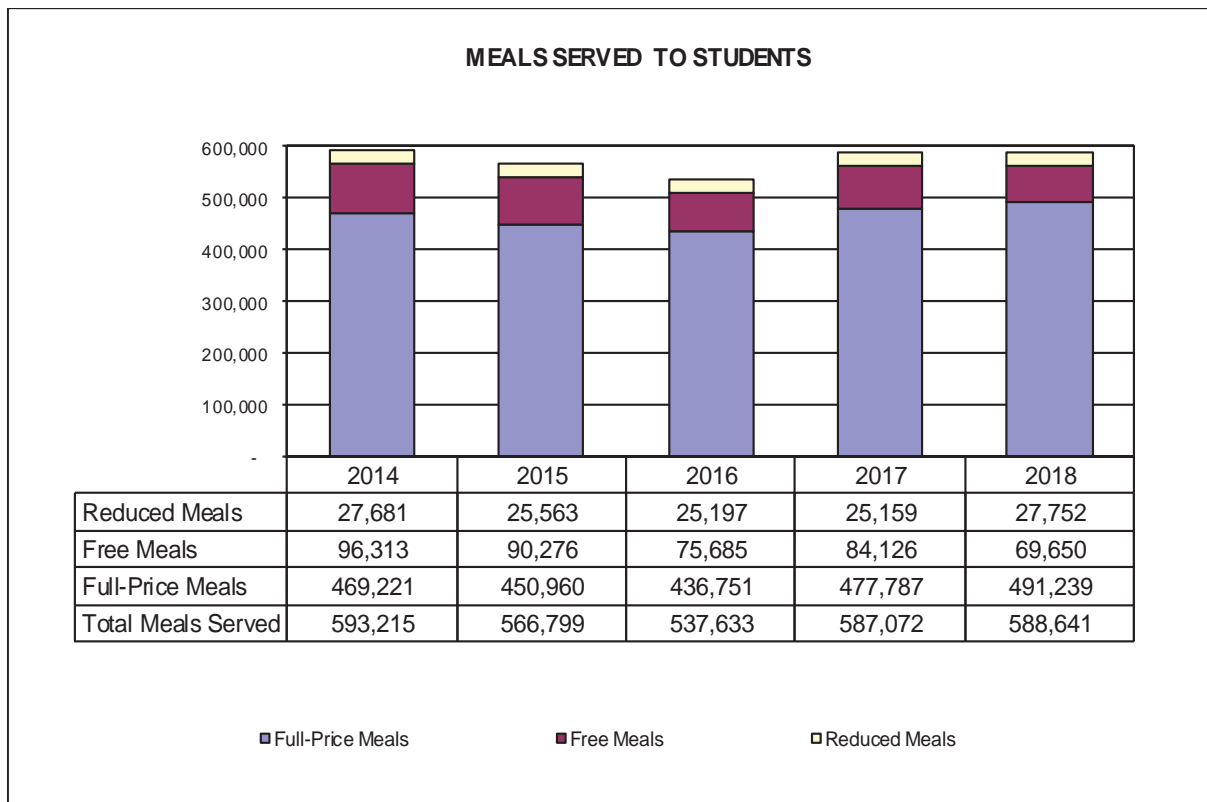
**Food Service Fund**

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

|                                   | Year Ended   |              |              |              |              |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                   | 2014         | 2015         | 2016         | 2017         | 2018         |
| Revenues                          | \$ 3,683,212 | \$ 3,784,310 | \$ 4,374,888 | \$ 4,627,995 | \$ 4,711,794 |
| Expenditures                      | 3,585,921    | 3,779,723    | 4,157,105    | 4,581,683    | 4,440,661    |
| Excess Revenues Over Expenditures | 97,291       | 4,587        | 217,783      | 46,312       | 271,133      |
| Fund Balance:                     |              |              |              |              |              |
| Beginning of Year                 | 482,038      | 579,329      | 583,916      | 801,699      | 848,011      |
| End of Year                       | \$ 579,329   | \$ 583,916   | \$ 801,699   | \$ 848,011   | \$ 1,119,144 |
| Lunches Served to Students        | 593,215      | 566,799      | 537,633      | 587,072      | 588,641      |
| Revenue per Lunch Served          | \$ 6.21      | \$ 6.68      | \$ 8.14      | \$ 7.88      | \$ 8.00      |

Total revenues exceeded total expenditures by \$271,133 in the District's Food Service Fund for 2018, increasing fund balance to \$1,119,144 at June 30, 2018. The ending fund balance represents 25.2% of expenditures (prior year was 18.51%) and provides for cash flow 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 \$115,099 (or 2.5%) while total expenditures were \$114,060 (or 2.5%) lower than the budgeted amount. The net impact of these variances was to increase the fund balance of the Food Service Fund by \$229,159 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:



**APPENDIX A (CONTINUED)**

**Community Service Fund**

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

|   | Year Ended June 30, |              |              |              |              |
|---|---------------------|--------------|--------------|--------------|--------------|
|   | 2014                | 2015         | 2016         | 2017         | 2018         |
| Revenues  | \$ 5,151,796        | \$ 5,002,729 | \$ 6,004,092 | \$ 6,785,306 | \$ 6,839,581 |
| Expenditures  | 5,210,982           | 4,774,965    | 5,644,342    | 6,872,637    | 7,370,403    |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (59,186)            | 227,764      | 359,750      | (87,331)     | (530,822)    |
| Fund Balance:   |                     |              |              |              |              |
| Beginning of Year   | 1,248,828           | 1,189,642    | 1,417,406    | 1,777,156    | 1,689,825    |
| End of Year   | \$ 1,189,642        | \$ 1,417,406 | \$ 1,777,156 | \$ 1,689,825 | \$ 1,159,003 |
| Fund Balance:   |                     |              |              |              |              |
| Nonspendable  | \$ 18,359           | \$ 19,561    | \$ 27,635    | \$ 29,777    | \$ 33,609    |
| Restricted for Community Ed                               | 1,073,797           | 1,153,519    | 1,236,296    | 1,078,822    | 594,504      |
| Restricted for ECFE                                       | 79,266              | 187,340      | 278,696      | 362,133      | 429,474      |
| Restricted for School Readiness                           | 16,815              | 46,968       | 234,370      | 206,476      | 101,416      |
| Restricted for Adult Basic Ed                             | 1,405               | 1,405        | 151          | -            | -            |
| Restricted for Other Purposes                             | -                   | 8,613        | 8            | 12,617       | -            |
| Total Fund Balance  | \$ 1,189,642        | \$ 1,417,406 | \$ 1,777,156 | \$ 1,689,825 | \$ 1,159,003 |

The District's Community Service Fund total expenditures exceeded revenues by \$530,822 for fiscal 2018, bringing the combined fund balance to \$1,159,003 at June 30, 2018. Total revenue was less than the final budgeted amount by \$419,820 while total expenditures were \$120,884 less than the budgeted amount. The net impact of these variances was to decrease the fund balance of the Community Service Fund by \$298,936 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

### COMPARATIVE EXPENDITURES PER STUDENT SERVED

|  | Statewide        |                  |                  | ISD No. 719                      |                  |                  |
|--|------------------|------------------|------------------|----------------------------------|------------------|------------------|
|  | All              | Seven County     | Enrollment       | Prior Lake - Savage Area Schools |                  |                  |
|  | Districts        | Metro Area       | > than 4,000     |                                  |                  |                  |
|  | 2017             | 2017             | 2017             | 2016                             | 2017             | 2018             |
| District and School Admin and Support Services           | \$ 1,049         | \$ 996           | \$ 955           | \$ 791                           | \$ 743           | \$ 751           |
| Regular Instruction (including Co- and Extra-Curricular) | 5,499            | 5,887            | 5,726            | 4,793                            | 4,942            | 5,201            |
| Vocational Instruction (Career & Technical)              | 156              | 153              | 158              | 83                               | 74               | 79               |
| Special Education Instruction                            | 2,231            | 2,334            | 2,395            | 1,827                            | 1,821            | 1,926            |
| Instructional Support Services                           | 643              | 765              | 751              | 602                              | 589              | 691              |
| Pupil Support Services (excluding Transportation)        | 363              | 438              | 424              | 261                              | 304              | 312              |
| Pupil Transportation                                     | 713              | 727              | 709              | 472                              | 499              | 486              |
| Operations and Maintenance and Other                     | 894              | 870              | 874              | 704                              | 716              | 742              |
| General Fund Subtotal                                    | <u>11,548</u>    | <u>12,170</u>    | <u>11,992</u>    | <u>9,532</u>                     | <u>9,688</u>     | <u>10,188</u>    |
| Food Service   | 546              | 545              | 541              | 505                              | 520              | 505              |
| Community Service  | 579              | 713              | 682              | 700                              | 803              | 843              |
| Capital Expenditure (excluding Building Constr Fund)     | 701              | 592              | 596              | 459                              | 295              | 279              |
| Debt Service   | 1,382            | 1,473            | 1,412            | 1,587                            | 1,640            | 1,568            |
| Total Pre-K - 12   |                  |                  |                  |                                  |                  |                  |
| Operating Expenditures                                   | <u>\$ 14,756</u> | <u>\$ 15,493</u> | <u>\$ 15,223</u> | <u>\$ 12,783</u>                 | <u>\$ 12,946</u> | <u>\$ 13,383</u> |
| Percent Change from Prior Year                           |                  |                  |                  | -5.11%                           | 1.28%            | 3.38%            |

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

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

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

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

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

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

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

Transportation - all costs for pupil transportation

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

Food service - all costs of the Food Service Fund

Community service - all costs of the Community Service Fund

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

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

## APPENDIX C

### LEGISLATIVE ACTIVITY

What follows are some education-related highlights of recent legislative sessions as summarized from information made available by the Minnesota Department of Education, the Minnesota School Boards Association, and the Minnesota House of Representatives.

#### **General Education Formula Increase (2017 Legislative Session)**

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

#### **ECFE Funding (2017 Legislative Session)**

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

#### **School Readiness Plus (SR+) (2017 Legislative Session)**

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

#### **American Indian Tribal Contract Aid (2017 Legislative Session)**

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

#### **Lead in School Drinking Water (2017 Legislative Session)**

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

The remainder of items was the result of the 2018 legislative session.

#### **Pension Reform Bill**

One of the main outcomes of the 2018 legislative session that was passed and signed into law was a pension reform bill. Key provisions impacting the Teacher Retirement Association (TRA) and Public Employees Retirement Association Boards (PERA) were as follows:

## APPENDIX C (CONTINUED)

### TRA

- Increases the TRA employer contribution by 1.25% over six years, beginning July 1, 2019.
- State funding to cover the employer increase through the pension adjustment mechanism.
- Increases the employee contributions by 0.25% in 2024.
- Reduces the investment assumed rate of return from 8.5% to 7.5%.
- Eliminates the automatic cost-of-living adjustment (COLA) triggers and reduces the COLA from 2% to 1% for five years and then increases the COLA 0.1% per year for five years until it reaches 1.5%.

### PERA

- Makes no changes in employee and employer contributions.
- Reduces the assumed rate of return from 8% to 7.5%.
- Replaces the current cost-of-living adjustment (COLA)—1% with increase to 2.5% when plan funding improves—with an adjustment based on one-half of the consumer price index, with a maximum of 1.5% and a minimum of 1%.
- Leaves an estimated contribution sufficiency equal to roughly 1% of salary to buffer against future uncertainty.

### St. Paul Teacher Retirement Fund Association (SPTRFA)

A comprehensive package similar to the TRA is included for the SPTRFA with direct appropriation. The bill reduces SPTRFA's liabilities by nearly \$100 million and allows the fund to reach "fully funded" status over the 30-year amortization period.

### School Safety Grants

This \$25,000,000 is the only new money made available for school districts to increase school safety. This grant program will be administered by the Minnesota Department of Education (MDE). Criteria are as follows:

- maximum grant is \$500,000;
- half of the money must go to school districts outside the 11-county metropolitan area;
- grants may be used to predesign, design, construct, furnish, and equip school facilities including renovating and expanding existing buildings and facilities; and
- grants will be awarded on a first-come/first-served basis.

### Uniform Municipal Contracting Law (Includes School Districts)

For contracts to purchase or sell/dispose of goods/services entered into on or after August 1, 2018, the following estimated dollar thresholds have increased:

- Sealed bids or direct negotiations: If the amount of the contract is estimated to exceed \$25,000 but not to exceed \$175,000 (previously \$100,000), the school district has the option of using either sealed bids or direct negotiation.
- Sealed bids: If the amount of the contract is estimated to exceed \$175,000 (previously \$100,000), sealed bids are required.

## APPENDIX D

### ACCOUNTING UPDATE

#### **GASB Statement No. 83 – Certain Asset Retirement Obligations**

GASB Statement No. 83 provides accounting and financial reporting requirements for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Examples include: decommissioning of nuclear reactors, removal, and disposal of wind turbines in wind farms, dismantling and removal of sewage treatment plants, and removal and disposal of x-ray machines. The statement is effective for financial statements for periods beginning after June 15, 2018.

#### **GASB Statement No. 84 – Fiduciary Activities**

GASB Statement No. 84 establishes criteria for identifying fiduciary activities for state and local governments, focusing on (1) whether the government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception is provided for a business-type activity that normally expects to hold custodial assets for three months or less. Different criteria are included for fiduciary component units and postemployment benefit arrangements.

The main changes of this statement:

1. Governments may find additional activities that need to be reported as fiduciary that were not reported in the past.
2. Some activities treated as fiduciary may no longer be reported as fiduciary.
3. Agency funds will now be called custodial funds.
4. A statement of changes in fiduciary net position will be required for custodial funds.
5. Liabilities will be reported when an event has occurred that compels the government to disburse fiduciary resources.
6. Single purpose business-type activities will be required to report fiduciary activities unless the above exception applies.

The statement is effective for reporting periods beginning after December 15, 2018.

#### **GASB Statement No. 87 – Leases**

GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. Specifically, this statement:

1. Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
2. Defines the “lease term” and clarifies when lessees and lessors should reassess the lease term due to lease modifications or terminations.
3. Defines and establishes recognition criteria for short-term leases.
4. Amends accounting and financial reporting requirements for contracts with multiple components, contract combinations, subleases, and leaseback transactions.

The statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

## **APPENDIX D (CONTINUED)**

### **GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**

GASB Statement No. 88 improves the consistency in the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. Requires disclosure of additional essential information about debt. The statement is effective for reporting periods beginning after June 15, 2018.

## 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, 2018, and have issued our report thereon dated September 27, 2018. 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.

As described in the Notes, during the fiscal year ended June 30, 2018, the District changed accounting policies related to its accounting for pensions by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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.

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 five 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.



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

Accounting estimates

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

- Due from Minnesota Department of Education
- 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 2018. 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 2018 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 Severance Benefits Payable is based on certain assumptions made by the District. As required by GASB Statement No. 16, the District has recorded a liability in long-term debt for accumulated sick leave convertible to early retirement pay for which it is probable the employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), and the potential use of accumulated sick leave prior to termination.

Management's estimate of other pension benefits payable is based on an actuarially determined calculation as required by GASB Statement No. 73.

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.

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

***Accounting estimates (continued)***

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

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

***Financial statement disclosures***

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

***Corrected misstatements***

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated September 27, 2018.

***Management consultations with other independent accountants***

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

***Significant issues discussed with management prior to engagement***

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

***Other information in documents containing audited financial statements***

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

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated September 27, 2018.

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 27, 2018.

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

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**

Minneapolis, Minnesota  
September 27, 2018