CliftonLarsonAllen LLP
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December 2, 2019

School Board
Independent School District No. 276
Minnetonka Public School
Minnetonka, 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 auditors' 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 District for the courtesies, cooperation, and assistance extended to us during the course of our work.

CliftonLarsonAllen LLP

Michelle Hoffman

Michelle Hoffman, CPA
Principal

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INDEPENDENT SCHOOL DISTRICT NO. 276
MINNETONKA PUBLIC SCHOOLS

EXECUTIVE AUDIT SUMMARY (EAS)
AND MANAGEMENT REPORT

JUNE 30, 2019

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MINNETONKA PUBLIC SCHOOLS
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EXECUTIVE AUDIT SUMMARY (EAS)
AND MANAGEMENT REPORT
FOR
MINNETONKA PUBLIC SCHOOLS
YEAR ENDED JUNE 30, 2019

We prepared this Executive Audit Summary and Management Report in conjunction with our audit of the District's financial statements for the year ended June 30, 2019. We appreciated the time that staff took to work with us to complete the engagement—especially the efforts of Melissa Hallman and Bridget Merrill-Myhre who were our main contacts on the audit.

Audit Opinion – The financial statements are fairly stated. We issued what is known as a "clean" or unmodified audit report.

Yellow Book Opinion – No compliance issues were reported in our review of laws, regulations, contracts, and grants that could have significant financial implications to the District.

Internal Controls – No material weakness in controls over financial reporting were noted.

Single Audit – As part of the Single Audit we tested the District's compliance with all direct and material requirements of major federal programs (Special Education Cluster). No material weaknesses were noted with respect to compliance or controls over compliance.

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

Enrollment – For fiscal 2018-19, Minnetonka Public Schools had an estimated total adjusted average daily membership of 10,927.14 (or 11,925.44 adjusted pupil units). For fiscal 2017-18, the District had an adjusted average daily membership of 10,774.11 (or 11,760.28 adjusted pupil units).

Fund Balance – The District's General Fund unassigned fund balance increased by $1,950,604 during fiscal 18-19, increasing from $18,225,254 to $20,175,858. Total fund balance of the General Fund increased by $5,274,579 ending at $28,367,299 as of June 30, 2019. The ending unassigned fund balance represents 14.17% of General Fund expenditures. A District's fund balance is an important aspect in considering the District's financial well-being since a healthy fund balance represents things such as cash flow, as a cushion against unanticipated expenditures, enrollment declines, funding deficiencies, and aid prorations at the state level and similar problems.

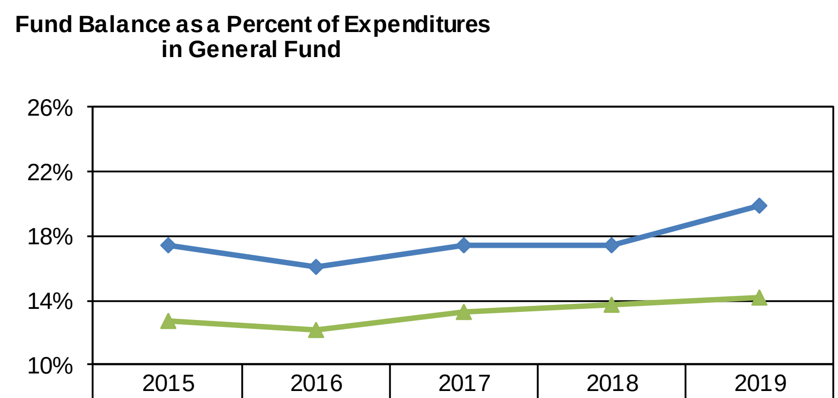
Budget to Actual – Total revenues on a net basis in the General Fund were $1,284,503 (or 0.92%) higher than the budgeted amount while total expenditures were $2,164,696 (or 1.54%) higher than had been budgeted. The District entered into a three-year installment agreement to purchase computer related equipment. Governmental accounting standards require that the District recognize the entire amount of $2,521,614 as an other financing source as well as a current expenditure in the year the lease is entered into. This has no net effect on the change in fund balance and had the District not had to recognize the full three-year installment agreement as a current expenditure, budgeted expenditures would have been under budget by $356,918, or 0.23% for fiscal year 2019.

The net effect of the actual budget variances, including transfers in and other financing sources related to capital leases, was an increase to total fund balance that was approximately $5,056,904 more than had been reflected in the District's budget. On a budget this large, these variances reflect excellent budget development, monitoring, and outcomes, and are consistent with prior year variances.

I. FINANCIAL RESULTS

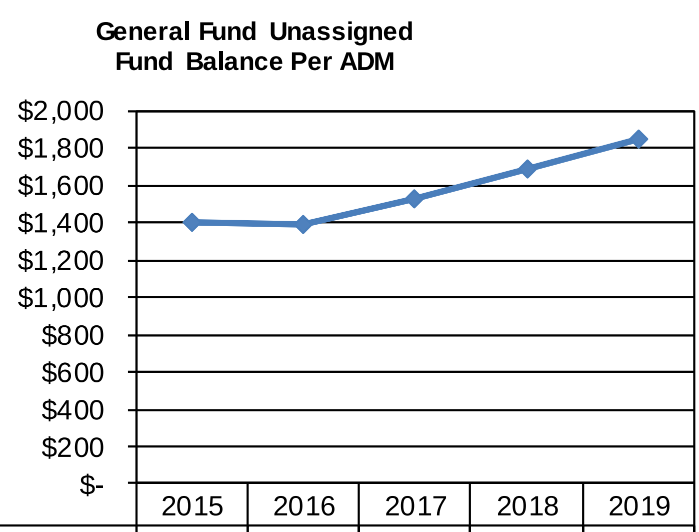
Fund Balances of the General Fund

As a percentage of annual expenditures (Board policy is to maintain at least 6% in the unassigned fund balance):



	2015	2016	2017	2018	2019
Unassigned Fund Balance	13,821,183	14,054,648	16,065,042	18,225,254	20,175,858
Unassigned Fund Balance	12.67%	12.15%	13.28%	13.77%	14.17%
Total Fund Balance	19,055,503	18,657,653	21,102,336	23,092,720	28,367,299
Total Fund Balance	17.47%	16.13%	17.44%	17.45%	19.92%

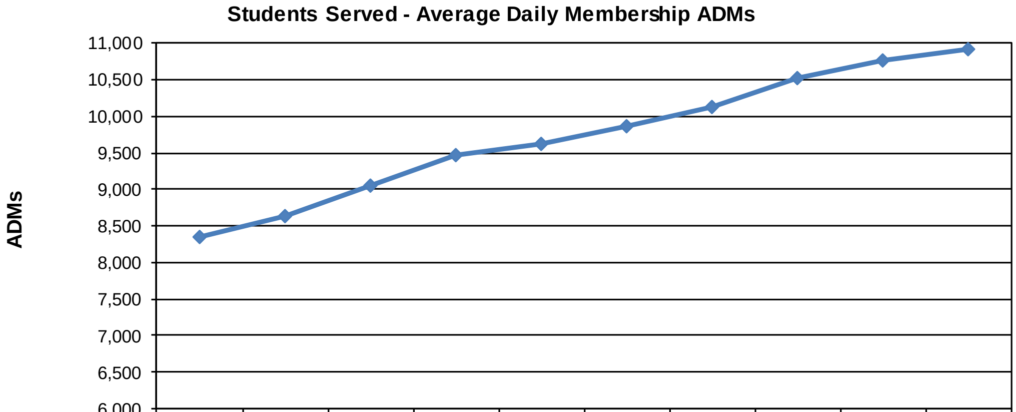
Per student served.



	2015	2016	2017	2018	2019
Fund Balance Per ADM	$1,402	$1,387	$1,527	$1,692	$1,846

I. FINANCIAL RESULTS (CONTINUED)

Students Served



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Students Served (ADMs)	8,346	8,624	9,057	9,467	9,624	9,859	10,131	10,521	10,774	10,927

I. FINANCIAL RESULTS (CONTINUED)

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. Beginning in fiscal 2015, the District was required to implement GASB Statement No. 68, which significantly impacted the District's ending net position as a result of recording the District's estimated share of the respective unfunded liability for the statewide pension plans for TRA and PERA. 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,	
	2019	2018
Total Fund Balance for Governmental Funds	$ 38,508,367	$ 33,215,076
Capital Assets, Less Accumulated Depreciation	158,929,878	156,621,023
Long-Term Liabilities	(173,849,546)	(171,476,120)
Net Pension Liability	(90,916,823)	(242,388,667)
Other Postemployment Benefits Liability	(9,879,719)	(9,797,253)
Deferred Inflows/Outflows for Pensions - Net	(24,075,362)	97,421,524
Other - Net	27,077,813	28,023,832
Total Net Position - Governmental Activities	$ (74,205,392)	$ (108,380,585)
Net Position		
Net Investment in Capital Assets	$ 12,846,900	$ 13,441,105
Restricted	9,970,960	7,245,813
Unrestricted	(97,023,252)	(129,067,503)
Total Net Position - Governmental Activities	$ (74,205,392)	$ (108,380,585)

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 beginning in fiscal 2015, 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.

I. FINANCIAL RESULTS (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. As mentioned previously, the line item for "Change in Net Pension Liability" was a new requirement beginning in fiscal 2015. 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 2019 and 2018:

	As of June 30,	
	2019	2018
Net Change in Fund Balance - Total Governmental Funds	$ 5,293,291	$ (3,022,079)
Capital Asset Purchases	8,833,640	8,746,821
Depreciation	(6,521,052)	(6,425,658)
Debt Proceeds	(29,316,614)	(21,565,000)
Repayment of Debt	28,921,614	28,303,575
Change in OPEB Liability	(82,466)	270,507
Change in Net Pension Liability and Related Deferred Outflows and Deferred Inflows	29,974,958	(35,151,209)
Change in Other Long-Term Liabilities	(2,270,624)	(2,832,863)
Other - Net	(657,554)	106,460
Change in Net Position - Governmental Activities	$ 34,175,193	$ (31,569,446)

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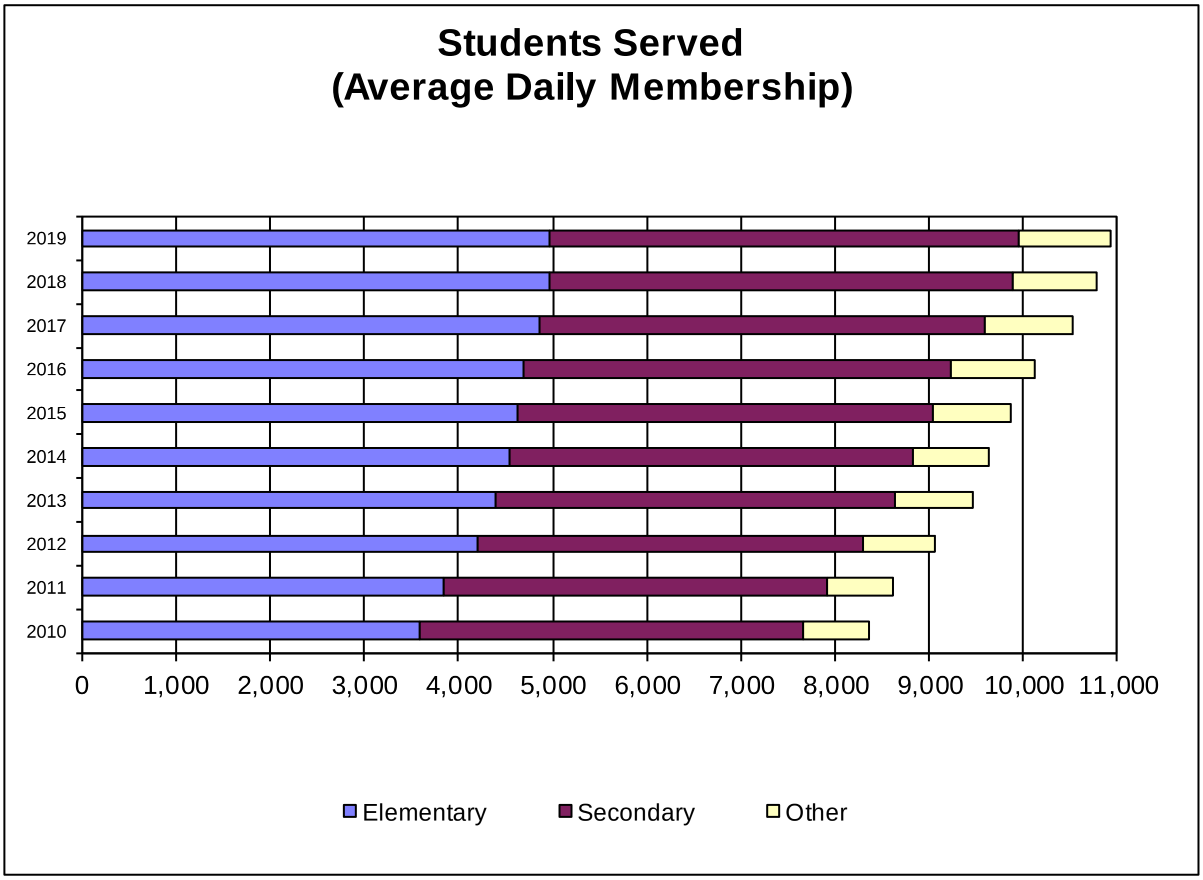
APPENDIX A

FINANCIAL TRENDS OF YOUR DISTRICT

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

Average Daily Membership and Pupil Units

The following graph summarizes average daily membership of Independent School District No. 276 over the past ten years ended June 30:

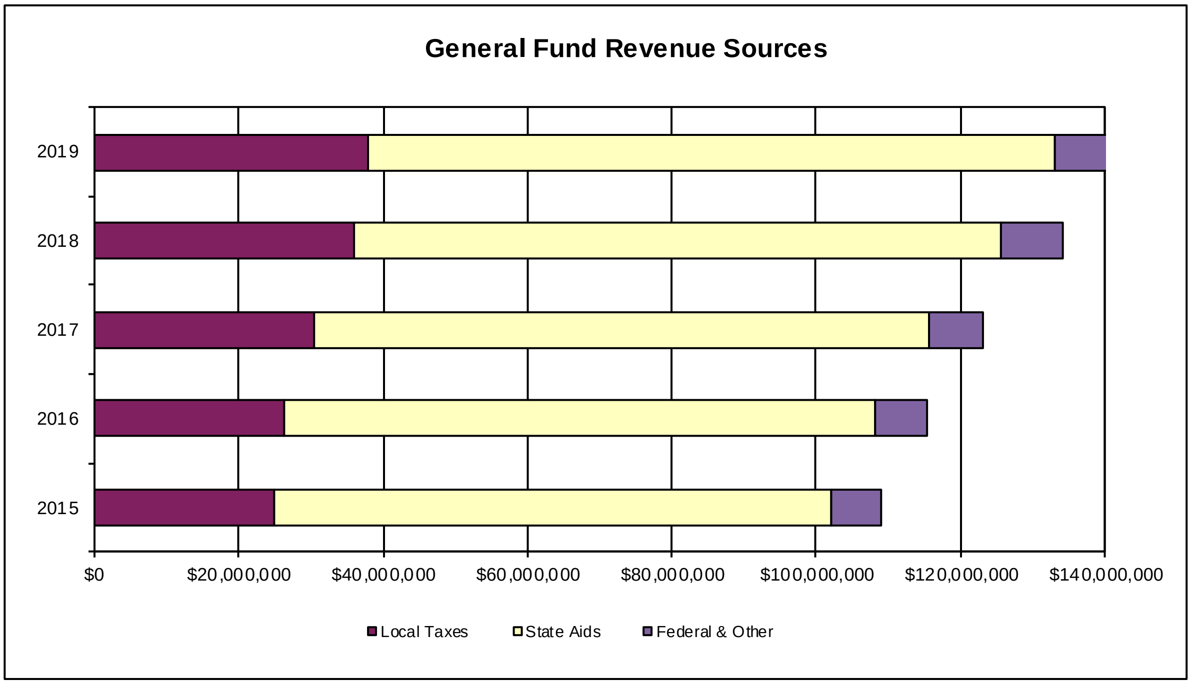


The District's average daily membership (ADM) for purposes of General Education Aid for fiscal 2019 was 10,927 students, which represents a net change of 153 more students than the prior year. Since fiscal 2010, the District's enrollment has increased by a net 30.6%.

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 such as the education homestead market value aid, this only impacts the mix between state aids and taxes and does not change total revenue. For this and other reasons, school finance in Minnesota continues to be a very difficult subject to explain to the general public.

	Taxes		State		Federal and Other		
Year	Amount	%	Amount	%	Amount	%	Total
2015	$ 24,885,481	23%	$ 77,201,744	71%	$ 6,782,054	6%	$ 108,869,279
2016	26,245,569	23%	81,970,155	71%	7,071,752	6%	115,287,476
2017	30,479,893	25%	85,209,652	69%	7,284,840	6%	122,974,385
2018	36,045,639	27%	89,582,947	67%	8,488,583	6%	134,117,169
2019	37,805,891	27%	95,228,354	67%	8,676,525	6%	141,710,770

APPENDIX A (CONTINUED)

Expenditures Per Student

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

General Fund Expenditures Per Student (Per ADM)

	2015	2016	2017	2018	2019
General Fund - All Expenditures	$11,064	$11,419	$11,498	$12,281	$13,030
Operating Expenditures	$10,389	$10,701	$10,822	$11,508	$12,022

General Fund Expenditures for fiscal 2019 were $142,382,288, which represents an increase of $10,063,427 or 7.61% from fiscal 2018.

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

	2019				2018
	Budget	Actual	Over (Under) Budget	%	Actual
Salaries	$ 86,062,761	$ 86,243,149	$ 180,388	0.2%	$ 81,836,419
Employee Benefits	26,135,631	25,761,907	(373,724)	-1.4%	23,851,008
Purchased Services	10,748,476	11,702,458	953,982	8.9%	10,530,824
Supplies and Materials	6,712,520	6,799,877	87,357	1.3%	7,203,428
Capital Expenditures	4,220,164	5,834,717	1,614,553	38.3%	3,386,608
Other Expenditures	6,338,040	6,040,180	(297,860)	-4.7%	5,510,574
Total Expenditures	$ 140,217,592	$ 142,382,288	$ 2,164,696	1.5%	$ 132,318,861

The District has historically done an excellent job of allocating the budget according to the nature of the underlying cost, especially for the most critical areas of salaries and employee benefits. Budgeted expenditures were within $2,164,696 of actual amounts or 1.54% for fiscal 2019. The main reason for the overage in expenditures is related to a capital lease the District entered into in 2019. The District entered into a three-year installment agreement to purchase computer related equipment. Governmental accounting standards require that the District recognize the entire amount of $2,521,614 as an other financing source as well as a current expenditure in the year the lease is entered into. This has no net effect on the change in fund balance and had the District not had to recognize the full three-year installment agreement as a current expenditure, budgeted expenditures would have been under budget by $356,918, or 0.23% for fiscal year 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,				
	2015	2016	2017	2018	2019
Revenues	$ 108,869,279	$ 115,287,476	$ 122,974,385	$ 134,117,169	$ 141,710,770
Expenditures	109,080,060	115,685,326	120,974,763	132,318,861	142,382,288
Excess (Deficiency) of Revenues Over (Under) Expenditures	(210,781)	(397,850)	1,999,622	1,798,308	(671,518)
Other Financing Sources:					
Capital Lease Proceeds	-	-	-	-	2,521,614
Operating Transfers In	-	-	445,061	192,076	3,424,483
Total Other Financing Sources	-	-	445,061	192,076	5,946,097
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(210,781)	(397,850)	2,444,683	1,990,384	5,274,579
Fund Balance:					
Beginning of Year	19,266,284	19,055,503	18,657,653	21,102,336	23,092,720
End of Year	$ 19,055,503	$ 18,657,653	$ 21,102,336	$ 23,092,720	$ 28,367,299
Nonspendable Fund Balance	$ 781,333	$ 779,705	$ 1,168,168	$ 1,677,381	$ 2,434,164
Restricted Fund Balance	279,151	628,474	469,509	(4,750)	2,916,480
Assigned Fund Balance	4,173,836	3,194,826	3,399,617	3,194,835	2,840,797
Unassigned Fund Balance	13,821,183	14,054,648	16,065,042	18,225,254	20,175,858
Total Fund Balance	$ 19,055,503	$ 18,657,653	$ 21,102,336	$ 23,092,720	$ 28,367,299
Undesignated/Unassigned Fund Balance as a Percentage of Expenditures	12.67%	12.15%	13.28%	13.77%	14.17%
Total Fund Balance as a Percentage of Expenditures	17.47%	16.13%	17.44%	17.45%	19.92%

The District’s General Fund had an excess of revenues and other financing sources over expenditures of $5,274,579 for fiscal 2019, bringing total fund balance to $28,367,299 at June 30, 2019. Total fund balance includes a net $2,434,164 in nonspendable accounts, $2,916,480 in restricted accounts (UFARS basis) as prescribed by state statute, and $2,840,797 in assigned accounts as determined by the School Board or finance department. That leaves an unassigned fund balance of $20,175,858 at year-end, which is 14.17% of General Fund expenditures. The ending fund balance exceeds the Board policy amount of 6.0% of expenditures.

Total General Fund revenues were higher than the budgeted amount for fiscal 2019 by $1,284,503 (or 0.92%). Total General Fund expenditures exceeded the budgeted amount by $2,164,696, or 1.54%. The net combined outcome of the budget variances was to increase the total ending fund balance by approximately $5.065 million more than the planned increase of approximately $210 thousand.

APPENDIX A (CONTINUED)

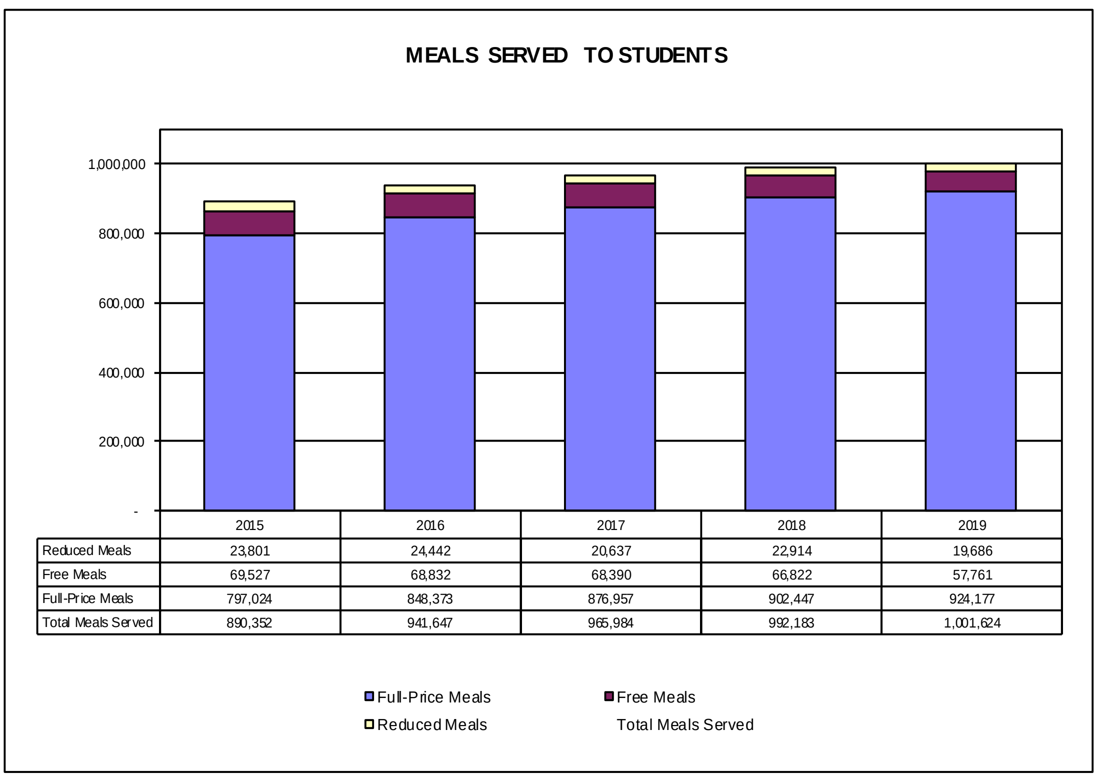
Food Service Fund

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

	Year Ended June 30,				
	2015	2016	2017	2018	2019
Revenues	$ 5,340,266	$ 5,613,748	$ 5,847,979	$ 6,060,079	$ 6,213,010
Expenditures	5,749,302	5,471,295	5,607,457	5,597,399	5,572,946
Excess (Deficiency) of Revenues Over (Under) Expenditures	(409,036)	142,453	240,522	462,680	640,064
Fund Balance:					
Beginning of Year	819,420	410,384	552,837	793,359	1,256,039
End of Year	$ 410,384	$ 552,837	$ 793,359	$ 1,256,039	$ 1,896,103
Lunches Served to Students	890,352	941,647	965,984	992,183	1,001,624
Revenue per Lunch Served	$ 6.00	$ 5.96	$ 6.05	$ 6.11	$ 6.20

Food Service expenditures include both operating funds and equipment replacement. Total revenues exceeded expenditures by $640,064 in the District's Food Service Fund for 2019, increasing fund balance to $1,896,103 at June 30, 2019. Total Food Service Fund revenues on a net basis were approximately $55,000 higher than had been reflected in the budget, while total expenditures on a net basis were approximately $548,000 less than budgeted; therefore, the impact on ending fund balance was an approximate $603,000 greater increase than had been budgeted.

The following chart reflects the activity of the food service program 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,				
	2015	2016	2017	2018	2019
Revenues	$ 9,651,639	$ 10,516,148	$ 11,381,289	$ 12,328,621	$ 13,265,443
Expenditures	9,332,114	9,658,832	10,676,180	11,754,543	12,095,261
Excess (Deficiency) of Revenues Over (Under) Expenditures	319,525	857,316	705,109	574,078	1,170,182
Other Financing Sources					
Transfers Out	-	-	-	-	(3,300,000)
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Uses	319,525	857,316	705,109	574,078	(2,129,818)
Fund Balance:					
Beginning of Year	1,708,088	2,027,613	2,884,929	3,590,038	4,164,116
End of Year	$ 2,027,613	$ 2,884,929	$ 3,590,038	$ 4,164,116	$ 2,034,298
Fund Balance:					
Nonspendable	$ 157,868	$ 148,369	$ 171,049	$ 137,970	$ 192,812
Restricted for ECFE	-	-	-	10,160	82,345
Restricted for Community Ed	1,854,045	2,662,839	3,256,314	3,773,642	1,520,924
Restricted for School Readiness	38,637	126,336	207,000	215,021	216,361
Restricted for Adult Basic Educ	21,693	15,180	14,524	14,524	14,524
Restricted for Other Purposes	-	-	6,410	12,799	7,332
Unassigned	(44,630)	(67,795)	(65,259)	-	-
Total Fund Balance	$ 2,027,613	$ 2,884,929	$ 3,590,038	$ 4,164,116	$ 2,034,298

The District's Community Service Fund had a deficiency of revenues over expenditures and other financing uses of $2,129,818 for fiscal 2019, bringing the combined fund balance to a balance of $2,034,298 at June 30, 2019.

Total revenues of the District's Community Service Fund for 2019 were $317,782 higher than the budgeted amount while total expenditures were under budget by $883,550. The District also had an unbudgeted transfer to the General Fund of $3,300,000. As a result, total fund balance decreased by $2,129,818 while the District had budgeted for a decrease in total fund balance of $31,150.

APPENDIX B

The table below reflects the comparative data available from the Minnesota Department of Education for all expenditures incurred for the benefit of pre-elementary through secondary education, except building construction.

Expenditures Per Student (ADM) Served

	Statewide			ISD No. 276 Minnetonka		
	All Districts 2018	Seven-County Metro Area 2018	Enrollment > than 4,000 2018	2017	2018	2019
District and School Admin and Support Services	$ 1,091	$ 1,045	$ 993	$ 741	$ 922	$ 954
Regular Instruction (including Co- & Extra-Curricular)	5,602	5,976	5,810	6,339	6,724	6,979
Vocational Instruction (Career & Technical)	159	154	159	79	58	53
Special Education Instruction	2,315	2,418	2,468	1,574	1,685	1,794
Instructional Support Services	639	748	743	575	644	617
Pupil Support Services (Excluding Transportation)	375	451	436	328	364	367
Pupil Transportation	747	758	736	453	459	457
Operations & Maintenance and Other	924	896	906	757	703	799
Food Service	550	545	544	526	510	503
Community Service	606	750	713	994	1,054	1,097
Capital Expenditure	743	636	642	250	360	551
Debt Service	1,342	1,372	1,434	1,182	1,483	1,357
Total Pre-K - 12 Operating Expenditures	$ 15,093	$ 15,749	$ 15,584	$ 13,799	$ 14,967	$ 15,529
Percent Change from Prior Year				4.15%	8.47%	3.75%

Source of Statewide Data: School District Profiles published by the Dept. 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,

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

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

As the above table reflects, the Minnetonka School District has typically expended less per student than the seven county metro area average.

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APPENDIX C

LEGISLATIVE ACTIVITY

What follows are some education-related highlights of the 2019 legislative session 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

The General Education Revenue formula allowance was increased by 2% (or by $126 per pupil unit to $6,438) for fiscal year 2020 and by another 2% (or $129 per pupil unit to $6,567) for fiscal year 2021 and later.

Special Education Funding

Special education aid was increased by the amount needed ($90,691,000) to hold the state average cross-subsidy constant at the fiscal year 2019 rate of $820 per pupil. Beginning in fiscal year 2020, the following special education funding formula changes take effect:

- Created a new category of special education aid called cross-subsidy reduction aid, and includes cross-subsidy aid in the definition of special education aid,
- The special education aid cap is phased out in fiscal 2021 and later,
- The tuition billing rate or “billback” paid by the resident school district is reduced for open enrolled special education students served by another district or charter school, and
- Adjusts the hold harmless to reduce the reliance on the fiscal year 2016 base and factors in current year costs.

Special Education Tuition Billing

The tuition rate paid by the resident district for open enrolled students is reduced from 90% to 85% of the unfunded costs for fiscal year 2020 and to 80% for fiscal year 2021 and later. The general education revenue for a charter school student is adjusted equal to 5% in fiscal year 2020 and 10% in fiscal year 2021 and later, of the unreimbursed cost of providing special education services to the student. Charter schools will receive additional special education aid from the state to fully fund the impact of the tuition billing change.

Voluntary Prekindergarten / School Readiness Plus

The funding for this 4,000-seat program that was set to expire after fiscal 2019 was extended for two additional years.

School Safety Supplemental Aid

Makes a one-time appropriation of up to $30 million. Districts must reserve the aid and use it for the same purposes as the safe schools levy.

Tribal Contract School Aid

The tribal contract aid amount for fiscal years 2020 and later was increased. Converts $3,230 per pupil to 51.17% of the basic formula allowance (this links future amounts to increases in the basic formula allowance).

School Board Control of Extracurricular Activities

Aligns school board responsibility for extracurricular activities to GASB requirements 84 and 87. Requires a school board to take charge of and control all extracurricular activities. Also requires a school district to reserve revenue raised for extracurricular activities and spend the revenue only for extracurricular activities. School boards will need to review each student activity account not under board control to determine whether the activity belongs under a district's General Fund or should not be a part of the district's financial system, (i.e.: outside organizations such as Booster Clubs). Effective July 1, 2019.

Simplification of Local Optional Revenue (LOR)

Modifies local optional revenue so that the revenue no longer needs to be factored into a district's referendum revenue. Transfers $300 per pupil unit of referendum revenue to LOR. Keeps the revenue and equalization levels the same. Conforms equity revenue, referendum allowance, referendum allowance limit, referendum equalization levy, and aid to the realignment of local optional revenue.

Dyslexia Screening

Requires a school district to screen for characteristics of dyslexia, in a locally determined manner, students identified as not reading at grade level by the end of kindergarten, grade 1, and grade 2. For students in grade 3 or higher, requires a district to screen students for characteristics of dyslexia, in a locally determined manner, who demonstrates a reading difficulty, unless a different reason for the reading difficulty has been identified.

Lead in School Drinking Water

Charter schools were added to the testing requirements. A school district or charter school that finds lead in cooking or drinking water is required to formulate, make publicly available, and implement a plan consistent with established guidelines and recommendations to ensure student exposure to lead is minimized. Districts and charter schools are also required to remediate the presence of lead to below the level set in the guidance, verified by retest, or directly notify parents of the result. The water source is required to be made unavailable until the hazard has been minimized.

Disposing of Surplus School Computers

In addition to authority available under current law to transfer surplus school computers to another school district, the state Department of Corrections, the Minnesota State system, or a family in the school district whose income is at or below the federal poverty level, legislation authorizes a school district to transfer a computer to a charitable nonprofit registered with the attorney general's office, or to sell or give a surplus computer to currently-enrolled district students who intend to enroll the following year. Requires the district to give priority to those students eligible for free or reduced-price meals and distribute the remaining computers by lottery.

Referendum Equalization Levy

The Legislature provided $9,000,000 in property tax relief in fiscal year 2021 and $600,000 for additional referendum aid for charter schools. The equalization factor for Tier 2 (new Tier 1) of the referendum levies was increased and conforms with technical provisions in the 2019 Education Omnibus Bill that convert the board-approved portion of Tier 1 referendum revenue to the local optional program. Effective for fiscal year 2021 and later.

School Building Bond Agricultural Credit

The school building bond ag credit was increased from 40% to 50% in Pay 20, to 55% in Pay 21, to 60% in Pay 22 and to 70% in Pay 23 and thereafter.

APPENDIX D

ACCOUNTING UPDATE

GASB standards effective for the first time for June 30, 2019, financial statements.

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. 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. The statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Requires disclosure of additional essential information about debt. The statement is effective for reporting periods beginning after June 15, 2018.

The remaining GASB standards have been issued but are not yet effective.

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. The following are considerations for Minnesota school districts.

GASB No. 84 has new definitions for pension trust funds, investment trust funds and private purpose trust funds. Trust agreements or an equivalent arrangement must be present for an activity to be reported in a trust fund (Fund 8), otherwise it will be part of the General Fund or the Custodial Fund. Custodial funds will report fiduciary activities for which there is no trust or equivalent arrangement. The Agency Fund (Fund 9) will no longer be allowed as of July 1, 2019, since this is no longer valid per GASB Statement No. 84. Review and re-categorize all activity in Fund 8 and Fund 9 to determine if the activity belongs in a different fund or if the LEA should not keep the activity. MDE has requested a new fund (Fund 18) to be in compliance with GASB Statement No. 84.

Student activities not under board control are not considered to be special revenue funds because they do not represent a single stream of revenue and the purpose of each activity may vary. Effective July 1, 2019, Minnesota school districts will no longer be allowed to report student activities "not under board control". Student activities within the General Fund will need to be reserved using fund balance account 401 so the student activity funds are not comingled. The use of a restricted fund balance code will also ensure that there is no impact on the state's statutory operating debt (SOD) calculation. Districts may, for local purposes, choose to have sub-accounts within the fund balance for each student activity (i.e., student council, chess club, or band).

Things to keep in mind once student activities are under board control include the fact that the Board must review all transactions, the Board will have oversight on activity accounts, there may be changes in allowable expenditures and there will be school board approval of all contracts (although this should have already been occurring). School districts will want to review and implement, where necessary, appropriate internal controls over receipting, fundraising, etc.

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.

STEPS THAT CAN BE TAKEN NOW

1) **Gather leases and contracts**. Depending on the number of leases your organization has, this may be a bigger challenge than anticipated. Keep in mind that not all leases are written "lease" agreements. Some contracts also include embedded leases that were previously treated as expenses, so you may be surprised to find more operating leases than you realized. Checking accounts payable for recurring payments may help you locate agreements that you'll need to analyze.

2) **Analyze all contracts to determine which are leases under the new standard**. GASB 87 defines a lease as a "contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset), as specified in the contract, for a period of time in an exchange or exchange-like transaction." Here are some of the agreements that can be excluded:

    - Short-term leases that are one year or less in duration.
    - Intangibles, such as investment assets, software licenses, and patents.
    - Financed purchases, where ownership of the asset transfers at the end of the lease without an additional payment.

3) **Review leases for multiple components.** Some leases include service agreements that will need to be split off from the entire lease. Many agreements (like service agreements and supply contracts) may qualify as leases under GASB 87. Some examples of service contracts that may have embedded leases can include cafeteria equipment, soda fountains, water coolers, coffee machines, etc. where the government may get to use a particular piece of equipment for free in return for the exclusive use of the provider's products.

4) **Determine appropriate materiality thresholds for capitalization**. Work with your auditor to determine what this should be. Be aware that items that are well below that threshold individually may be material in the aggregate.

5) **Select a technology solution such as leasing software to help manage your leases**. Unless your organization only has a few leases, the calculations for journal entries and footnote disclosures will most likely be beyond the capabilities of Excel. When choosing a software solution, keep in mind that tracking this information from leases will be an ongoing project, so look for one that's easy to use and provides your organization with all the information you'll need. Make sure to consider document storage as part of the capabilities. Entities with greater than 10-20 identified leases may wish to seriously consider a lease software solution and not rely on spreadsheets. Keep in mind that if a government has many similar leases, it may choose to amortize the lease assets as a group rather than individually. Composite depreciation is applied to groups of dissimilar assets, but should not be applied across classes of assets, such as buildings, equipment, furniture, and vehicles.

6) **Consider the district's bond covenants, loan covenants, and debt limitations to determine impact**. While a recent update from GASB (GASB 88) specifies that lease liabilities are excluded from the definition of debt for the purposes of financial statement disclosures, it's not clear whether banks, credit rating agencies or other stakeholders will take a similar stance.

    Adding liabilities for operating leases to the balance sheet may mean that covenants for bond contracts and loan agreements will be violated. If this is the case, you may need to renegotiate those agreements. Contacting these stakeholders and other interested parties early on is crucial.

Adding to the complexity, the rules and statutes governing debt limitations vary across states, counties, and municipalities. You may need to consult with an attorney to determine whether lease liabilities count as debt for those limitations.

7) **Develop new district policies and procedures as necessary.** Unlike many other financial controls, you'll need to work as a team with people outside of accounting, including procurement, IT and legal, to make sure all leases and contracts go through accounting. You may need to educate others about the balance sheet impacts of leases.
8) **Do your initial calculations and run the results past your auditor**. Because the calculations are different from the previous treatment of leases, some advisors are recommending performing a trial calculation on a subset of your leases. Then, ask us as your auditors to check your numbers before you do the entire population of leases.
9) **Begin the process early**. Early adopters report that they need two or three hours per lease to analyze and extract the data. Adding to the challenge, many government finance professionals wear many hats, and dealing with financial matters may be only a small part of their responsibilities. Be sure to keep the resulting information very organized and accessible and also keep in mind the new information that will be required for footnote disclosures.
10) **Start learning and keep learning**. Understanding the new standards is a steep learning curve. You'll need to dedicate time and resources for your team to get up to speed.

GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period

GASB Statement No. 89 provides that for financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset. Effective for reporting periods beginning after December 31, 2019. Earlier application is encouraged.

GASB Statement No. 90 – Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61

GASB Statement No. 90 modifies previous guidance for reporting a government's majority equity interest in a legally separate organization by specifying that this type of interest should be reported as an investment if it meets the definition of an investment as prescribed in GASB 72. For all other holdings of a majority equity interest, a government would report the legally separate organization as a component unit, and the government or fund that holds the interest would report the asset using the equity method. Effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 91 – Conduit Debt Obligations

The primary objective of GASB Statement No. 91 is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Effective for reporting periods beginning after December 15, 2020.

APPENDIX E

FORMAL REQUIRED COMMUNICATIONS

School Board
Independent School District No. 276
Minnetonka Public Schools
Minnetonka, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 276 Minnetonka Public Schools (the District) as of and for the year ended June 30, 2019, and have issued our report thereon dated December 2, 2019. 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 school 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 2019.

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.

Qualitative aspects of accounting practices (continued)

Accounting estimates

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

- Due from Minnesota Department of Education
- Due from other Minnesota school districts
- Due from federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Estimate of insurance claims incurred but not reported
- Estimate of the District's other postemployment benefit liability
- Estimate of the District's severance liability
- Estimate of the District's proportionate share of PERA's and TRA's net pension liability.

Management's estimate of the due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2019. 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 school. 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 2019 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 federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2019. 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 Electronic Data Reporting System (EDRS) 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.

Qualitative aspects of accounting practices (continued)

Accounting estimates (continued)

Management's estimate of the useful lives for depreciable capital assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable capital 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 insurance claims incurred but not reported is based on an actuarial study performed by an external actuary who utilizes various market assumptions and District data to estimate the liability each year.

Management's estimate of the liability for other postemployment benefits liability is based on an actuarial study performed by an external actuary who utilizes various market assumptions, data from the District's postemployment benefit plans and demographic information of the District's employees and retirees to estimate the liability each year.

Management's estimate of the severance liability at year-end is based on total sick leave hours accrued for each employee category, average pay rates, and the estimate of how many employees who are eligible for the benefit will retire.

Management's estimate of the District's proportionate share of PERA's and TRA's Net Pension Liability is based on guidance from GASB Statement 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 December 2, 2019.

Management consultations with other independent accountants

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

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 District'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 December 2, 2019, communicating internal control related matters

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.

School Board
Independent School District No. 276
Minnetonka Public Schools

Other information in documents containing audited financial statements (continued)

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 December 2, 2019.

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 December 2, 2019.

The statistical section accompanying the financial statements, which is the responsibility of management, was prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we did not express an opinion or provide any assurance on it.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 2, 2019