CliftonLarsonAllen LLP
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October 31, 2018

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

Dennis Hoogeveen, CPA
Principal

INDEPENDENT SCHOOL DISTRICT NO. 276
MINNETONKA PUBLIC SCHOOLS

EXECUTIVE AUDIT SUMMARY (EAS)
AND MANAGEMENT REPORT

JUNE 30, 2018

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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, 2018

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, 2018. 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 – One material weakness in controls over financial reporting was noted with regards to not recording the accreted values on capital appreciation bonds.

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 – One compliance issue with respect to Minnesota Statutes was noted related to obtaining all of the appropriate broker certifications.

Enrollment – For fiscal 2017-18, Minnetonka Public Schools had an estimated total adjusted average daily membership of 10,774.11 (or 11,760.28 adjusted pupil units). For fiscal 2016-17, the District had an adjusted average daily membership of 10,520.99 (or 11,467.52 adjusted pupil units).

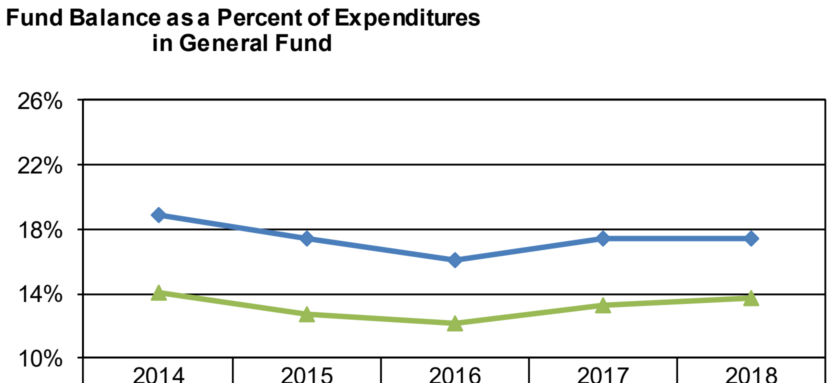
Fund Balance – The District's General Fund unassigned fund balance increased by $2,160,212 during fiscal 17-18, increasing from $16,065,042 to $18,225,254. Total fund balance of the General Fund increased by $1,990,384 ending at $23,092,720 as of June 30, 2018. The ending unassigned fund balance represents 13.13% 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 cashflow, 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 $910,161 (or 0.68%) higher than the budgeted amount while total expenditures were $932,214 (or 0.71%) higher than had been budgeted. The net effect, including transfers in, was an increase to total fund balance that was approximately $170,000 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

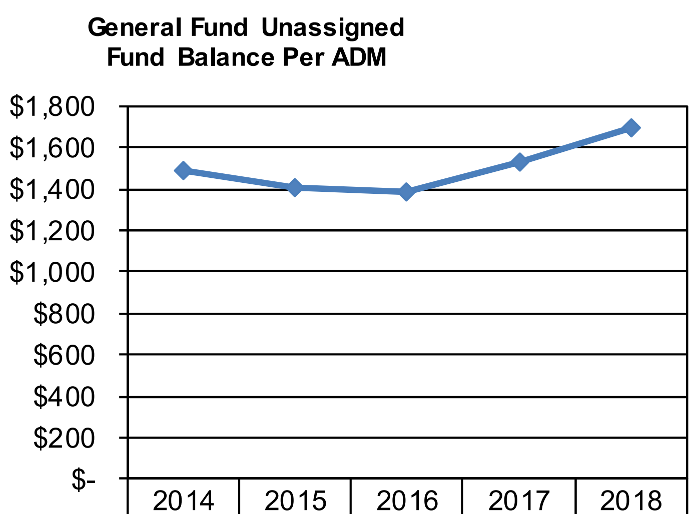
Fund Balances of the General Fund

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



	2014	2015	2016	2017	2018
Unassigned Fund Balance	14,362,441	13,821,183	14,054,648	16,065,042	18,225,254
Unassigned Fund Balance	14.09%	12.67%	12.15%	13.28%	13.77%
Total Fund Balance	19,266,284	19,055,503	18,657,653	21,102,336	23,092,720
Total Fund Balance	18.91%	17.47%	16.13%	17.44%	17.45%

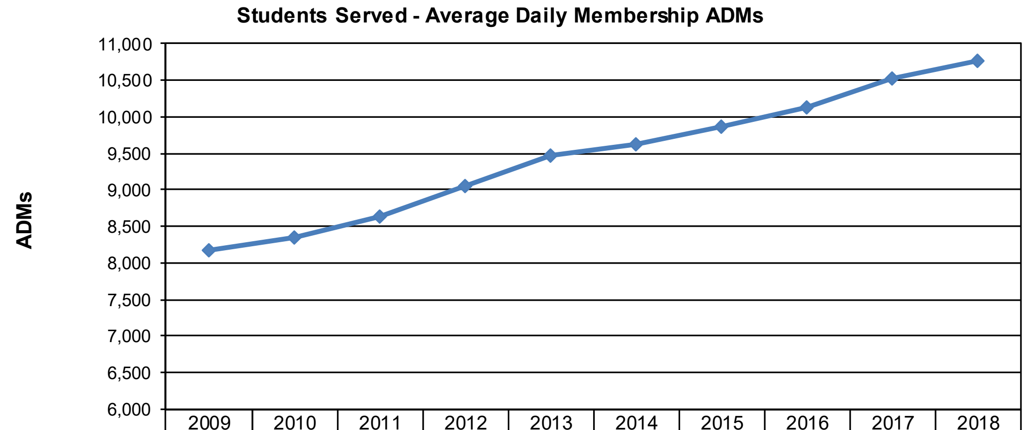
Per student served.



	2014	2015	2016	2017	2018
Fund Balance Per ADM	$1,492	$1,402	$1,387	$1,527	$1,692

I. FINANCIAL RESULTS (CONTINUED)

Students Served



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Students Served (ADMs)	8,167	8,346	8,624	9,057	9,467	9,624	9,859	10,131	10,521	10,774

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,	
	2018	2017
Total Fund Balance for Governmental Funds	$ 33,215,076	$ 36,237,155
Capital Assets, Less Accumulated Depreciation	156,621,023	154,315,198
Long-Term Liabilities	(171,476,120)	(172,771,037)
Net Pension Liability	(242,388,667)	(283,214,157)
Other Postemployment Benefits Liability	(9,797,253)	-
Deferred Inflows/Outflows for Pensions - Net	97,421,524	173,398,223
Other - Net	28,023,832	27,829,562
Total Net Position - Governmental Activities	$ (108,380,585)	$ (64,205,056)
Net Position		
Net Investment in Capital Assets	$ 13,441,105	$ 15,659,175
Restricted	7,245,813	6,808,222
Unrestricted	(129,067,503)	(86,672,453)
Total Net Position - Governmental Activities	$ (108,380,585)	$ (64,205,056)

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 2018 and 2017:

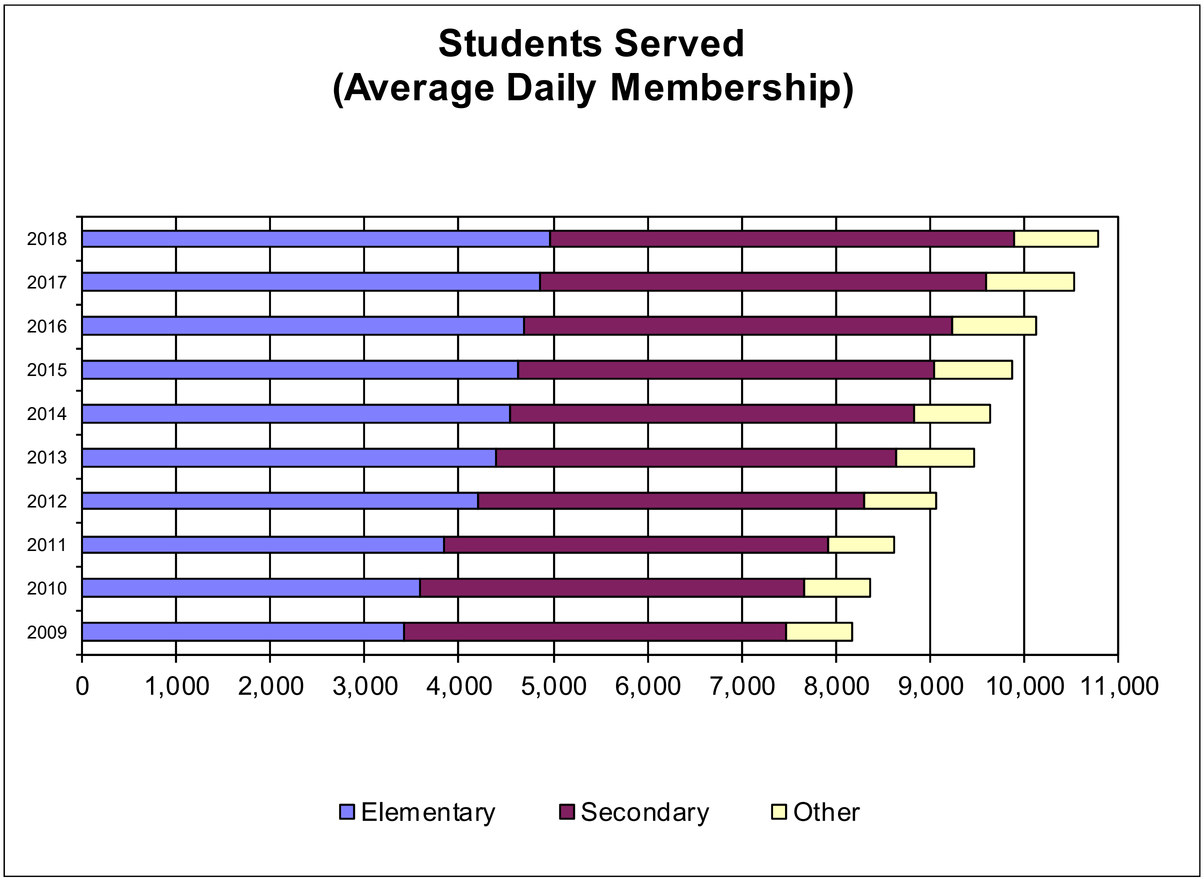
	As of June 30,	
	2018	2017
Net Change in Fund Balance - Total Governmental Funds	$ (3,022,079)	$ (1,128,333)
Capital Asset Purchases	8,746,821	11,226,105
Depreciation	(6,425,658)	(6,102,141)
Debt Proceeds	(21,565,000)	(8,560,000)
Repayment of Debt	28,303,575	6,924,417
Change in OPEB Liability	270,507	-
Change in Net Pension Liability and Related Deferred Outflows and Deferred Inflows	(35,151,209)	(35,202,753)
Change in Other Long-Term Liabilities	(2,832,863)	(414,478)
Other - Net	106,460	966,102
Change in Net Position - Governmental Activities	$ (31,569,446)	$ (32,291,081)

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:

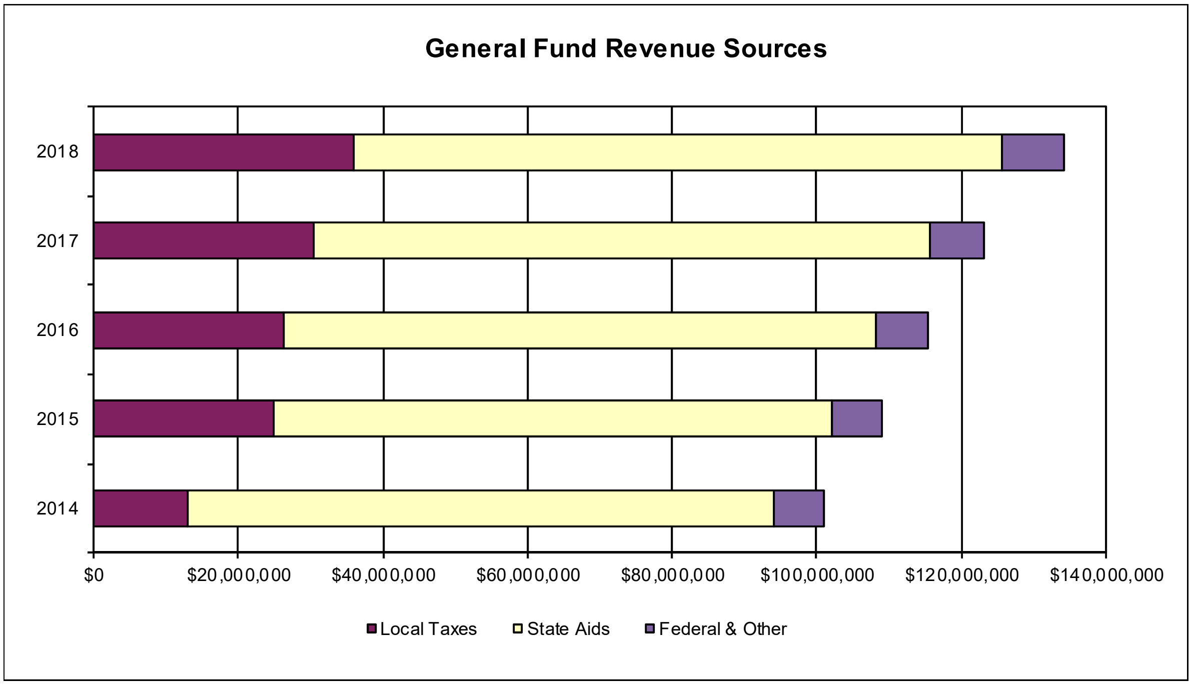


The District's average daily membership (ADM) for purposes of General Education Aid for fiscal 2018 was 10,774 students, which represents a net change of 253 more students than the prior year. Since fiscal 2009, the District's enrollment has increased by a net 31.9%.

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 example, in fiscal 2014, the Legislature repaid a total of approximately $9.0 million of the property tax shift buydown for the General Fund which gives the appearance of a significant decrease in taxes for 2014. For this and other reasons, school finance in Minnesota continues to be a very difficult subject to explain to the general public.

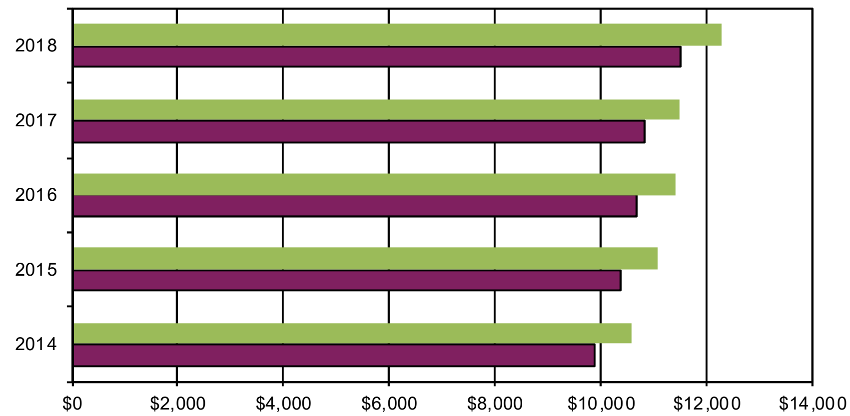
	Taxes		State		Federal and Other		
Year	Amount	%	Amount	%	Amount	%	Total
2014	$ 13,125,124	13%	$ 81,027,911	80%	$ 6,739,144	7%	$ 100,892,179
2015	24,885,481	23%	77,201,744	71%	6,782,054	6%	108,869,279
2016	26,245,569	23%	81,970,155	71%	7,071,752	6%	115,287,476
2017	30,479,893	25%	85,209,652	69%	7,284,840	6%	122,974,385
2018	36,045,639	27%	89,582,947	67%	8,488,583	6%	134,117,169

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)



	2014	2015	2016	2017	2018
General Fund - All Expenditures	$10,589	$11,064	$11,419	$11,498	$12,281
Operating Expenditures	$9,905	$10,389	$10,701	$10,822	$11,508

General Fund Expenditures for fiscal 2018 were $132,318,861, which represents an increase of $11,344,098 or 9.38% from fiscal 2017.

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

	2018				2017
	Budget	Actual	Over (Under) Budget	%	Actual
Salaries	$ 81,789,417	$ 81,836,419	$ 47,002	0.1%	$ 74,248,907
Employee Benefits	23,984,844	23,851,008	(133,836)	-0.6%	21,790,661
Purchased Services	9,738,575	10,530,824	792,249	8.1%	11,590,177
Supplies and Materials	7,271,152	7,203,428	(67,724)	-0.9%	5,390,379
Capital Expenditures	3,372,677	3,386,608	13,931	0.4%	2,349,709
Other Expenditures	5,229,982	5,510,574	280,592	5.4%	5,604,930
Total Expenditures	$ 131,386,647	$ 132,318,861	$ 932,214	0.7%	$ 120,974,763

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 $932,214 of actual amounts or 0.7% for fiscal 2018.

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	$ 100,687,179	$ 108,869,279	$ 115,287,476	$ 122,974,385	$ 134,117,169
Expenditures	101,705,823	109,080,060	115,685,326	120,974,763	132,318,861
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,018,644)	(210,781)	(397,850)	1,999,622	1,798,308
Other Financing Sources:					
Operating Transfers In	-	-	-	445,061	192,076
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,018,644)	(210,781)	(397,850)	2,444,683	1,990,384
Fund Balance:					
Beginning of Year	20,284,928	19,266,284	19,055,503	18,657,653	21,102,336
End of Year	$ 19,266,284	$ 19,055,503	$ 18,657,653	$ 21,102,336	$ 23,092,720
Nonspendable Fund Balance	$ 590,355	$ 781,333	$ 779,705	$ 1,168,168	$ 1,677,381
Restricted Fund Balance	411,185	279,151	628,474	469,509	(4,750)
Assigned Fund Balance	3,902,303	4,173,836	3,194,826	3,399,617	3,194,835
Unassigned Fund Balance	14,362,441	13,821,183	14,054,648	16,065,042	18,225,254
Total Fund Balance	$ 19,266,284	$ 19,055,503	$ 18,657,653	$ 21,102,336	$ 23,092,720
Undesignated/Unassigned Fund Balance as a Percentage of Expenditures	14.12%	12.67%	12.15%	13.28%	13.77%
Total Fund Balance as a Percentage of Expenditures	18.94%	17.47%	16.13%	17.44%	17.45%

The District's General Fund had an excess of revenues and other financing sources over expenditures of $1,990,384 for fiscal 2018, bringing total fund balance to $23,092,720 at June 30, 2018. Total fund balance includes a net $1,677,381 in nonspendable accounts, $(4,750) in restricted accounts (UFARS basis) as prescribed by state statute, and $3,194,835 in assigned accounts as determined by the School Board or finance department. That leaves an unassigned fund balance of $18,225,254 at year-end, which is 13.77% 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 2018 by $910,161 (or 0.68%). The net combined outcome of the budget variances was to increase the total ending fund balance by approximately $170,000 more than the planned increase of approximately $1.82 million.

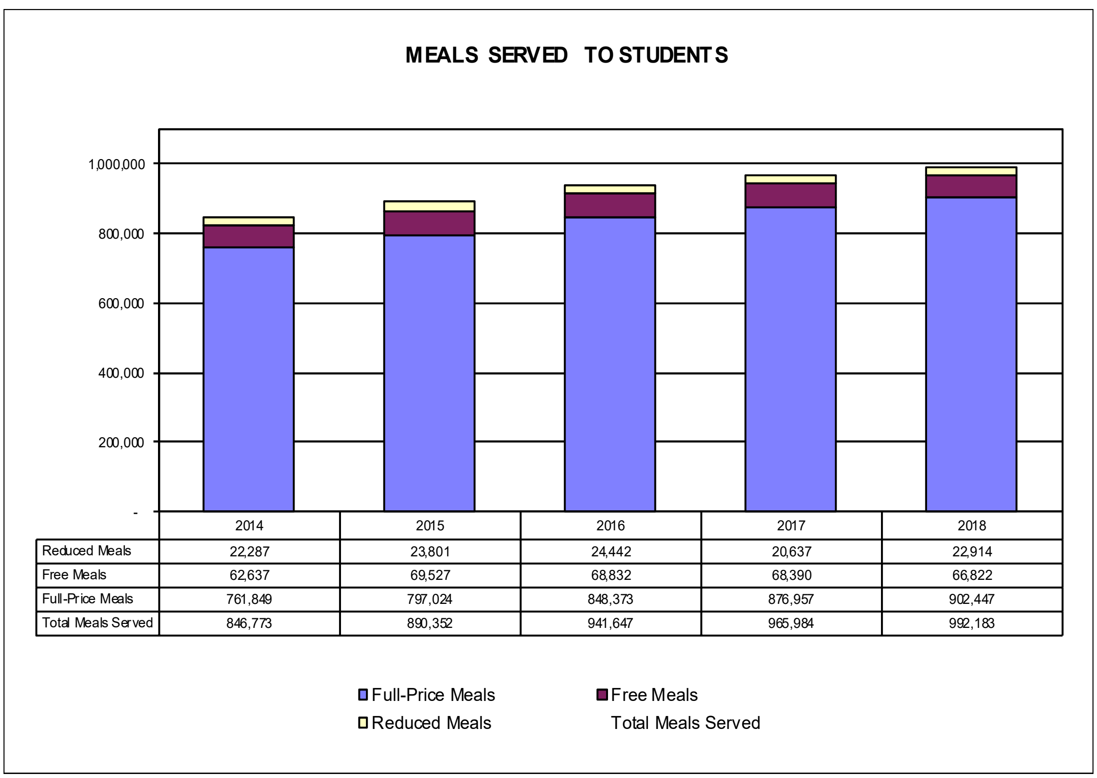
APPENDIX A (CONTINUED)

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

	Year Ended June 30, 2014	2015	2016	2017	2018
Revenues	$ 4,948,969	$ 5,340,266	$ 5,613,748	$ 5,847,979	$ 6,060,079
Expenditures	5,787,022	5,749,302	5,471,295	5,607,457	5,597,399
Excess (Deficiency) of Revenues Over (Under) Expenditures	(838,053)	(409,036)	142,453	240,522	462,680
Fund Balance:					
Beginning of Year	1,657,473	819,420	410,384	552,837	793,359
End of Year	$ 819,420	$ 410,384	$ 552,837	$ 793,359	$ 1,256,039
Lunches Served to Students	846,773	890,352	941,647	965,984	992,183
Revenue per Lunch Served	$ 5.84	$ 6.00	$ 5.96	$ 6.05	$ 6.11

Food Service expenditures include both operating funds and equipment replacement. Total revenues exceeded expenditures by $462,680 in the District's Food Service Fund for 2018, increasing fund balance to $1,256,039 at June 30, 2018. Total Food Service Fund revenues on a net basis were approximately $74,000 higher than had been reflected in the budget, while total expenditures on a net basis were approximately $344,500 less than budgeted; therefore, the impact on ending fund balance was an approximate $418,000 greater increase than had been budgeted.

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



	2014	2015	2016	2017	2018
Reduced Meals	22,287	23,801	24,442	20,637	22,914
Free Meals	62,637	69,527	68,832	68,390	66,822
Full-Price Meals	761,849	797,024	848,373	876,957	902,447
Total Meals Served	846,773	890,352	941,647	965,984	992,183

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	$ 10,587,714	$ 9,651,639	$ 10,516,148	$ 11,381,289	$ 12,328,621
Expenditures	10,854,901	9,332,114	9,658,832	10,676,180	11,754,543
Excess (Deficiency) of Revenues Over (Under) Expenditures	(267,187)	319,525	857,316	705,109	574,078
Fund Balance:					
Beginning of Year	1,975,275	1,708,088	2,027,613	2,884,929	3,590,038
End of Year	$ 1,708,088	$ 2,027,613	$ 2,884,929	$ 3,590,038	$ 4,164,116
Fund Balance:					
Nonspendable	$ 106,900	$ 157,868	$ 148,369	$ 171,049	$ 137,970
Restricted for ECFE	-	-	-	-	10,160
Restricted for Community Ed	1,628,575	1,854,045	2,662,839	3,256,314	3,773,642
Restricted for School Readiness	4,588	38,637	126,336	207,000	215,021
Restricted for Adult Basic Educ	21,711	21,693	15,180	14,524	14,524
Restricted for Other Purposes	-	-	-	6,410	12,799
Unassigned	(53,686)	(44,630)	(67,795)	(65,259)	-
Total Fund Balance	$ 1,708,088	$ 2,027,613	$ 2,884,929	$ 3,590,038	$ 4,164,116

The District's Community Service Fund had an excess of revenues over expenditures of $574,078 for fiscal 2018, bringing the combined fund balance to a balance of $4,164,116 at June 30, 2018.

Total revenues of the District's Community Service Fund for 2018 were $407,073 higher than the budgeted amount while total expenditures were under budget by $211,583. As a result, total fund balance increased by $574,078 while the District had budgeted for a decrease in total fund balance of $44,578.

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		
	All Districts	Seven-County Metro Area	Enrollment > than 4,000	Minnetonka		
	2017	2017	2017	2016	2017	2018
District and School Admin and Support Services	$ 1,049	$ 996	$ 955	$ 760	$ 741	$ 922
Regular Instruction (including Co- & Extra-Curricular)	5,499	5,887	5,726	6,264	6,339	6,724
Vocational Instruction (Career & Technical)	156	153	158	54	79	58
Special Education Instruction	2,231	2,334	2,395	1,577	1,574	1,685
Instructional Support Services	643	765	751	575	575	644
Pupil Support Services (Excluding Transportation)	363	438	424	308	328	364
Pupil Transportation	713	727	709	452	453	459
Operations & Maintenance and Other	894	870	874	743	757	703
Food Service	546	545	541	529	526	510
Community Service	579	713	682	948	994	1,054
Capital Expenditure	701	592	596	281	250	360
Debt Service	1,382	1,473	1,412	1,346	1,182	1,252
Total Pre-K - 12 Operating Expenditures	$ 14,756	$ 15,493	$ 15,223	$ 13,840	$ 13,799	$ 14,736
Percent Change from Prior Year				4.15%	-0.30%	6.79%

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, 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

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.

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:

TRA

- Increases the TRA employer contribution by 1.25% over six years, beginning July 1, 2018.
- 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. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

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

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

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

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

GASB Statement No. 85 – Omnibus 2017

GASB Statement No. 85 addresses practice issues identified during implementation and application of certain GASB statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The statement is effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 – Certain Debt Extinguishment Issues

GASB Statement No. 86 improves the consistency of reporting for certain in-substance debt defeasance resulting from cash and other monetary assets from existing resources (not from the issuance of refunding debt) that are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement is effective for reporting periods beginning after June 15, 2017.

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

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.

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. 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, 2018, and have issued our report thereon dated October 26, 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 school are described in Note 1 to the financial statements.

As described in Notes 1 and 14, the District adopted Statement of Governmental Accounting Standards (GASB) Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* in 2018. As a result, the District restated its beginning net position to reflect the revaluation of its Other Postemployment Benefits Liability at July 1, 2017.

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)

<u>*Accounting estimates*</u>

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 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 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 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 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 2018. 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 October 26, 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 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 October 26, 2018, 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 October 26, 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 October 26, 2018.

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

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

* * *

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 26, 2018