CliftonLarsonAllen LLP
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November 24, 2020

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

INDEPENDENT SCHOOL DISTRICT NO. 276
MINNETONKA PUBLIC SCHOOLS

EXECUTIVE AUDIT SUMMARY (EAS)
AND MANAGEMENT REPORT

YEAR ENDED JUNE 30, 2020

INDEPENDENT SCHOOL DISTRICT NO. 276
MINNETONKA PUBLIC SCHOOLS
EXECUTIVE AUDIT SUMMARY
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2020

EXECUTIVE AUDIT SUMMARY (EAS)
AND MANAGEMENT REPORT
FOR
MINNETONKA PUBLIC SCHOOLS
YEAR ENDED JUNE 30, 2020

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, 2020. 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 weaknesses 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 and Child Nutrition Cluster). One material weakness was noted with respect to controls over compliance for Child Nutrition procurement.

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

Enrollment – For fiscal 2019-20, Minnetonka Public Schools had an estimated total adjusted average daily membership of 11,087.84 (or 12,111.96 adjusted pupil units). For fiscal 2018-19, the District had an adjusted average daily membership of 10,927.14 (or 11,925.44 adjusted pupil units).

Fund Balance – The District's General Fund unassigned fund balance increased by $5,730,378 during fiscal 19-20, increasing from $20,175,858 to $25,906,236. Total fund balance of the General Fund increased by $4,587,976 ending at $32,955,275 as of June 30, 2020. The ending unassigned fund balance represents 17.76% 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.

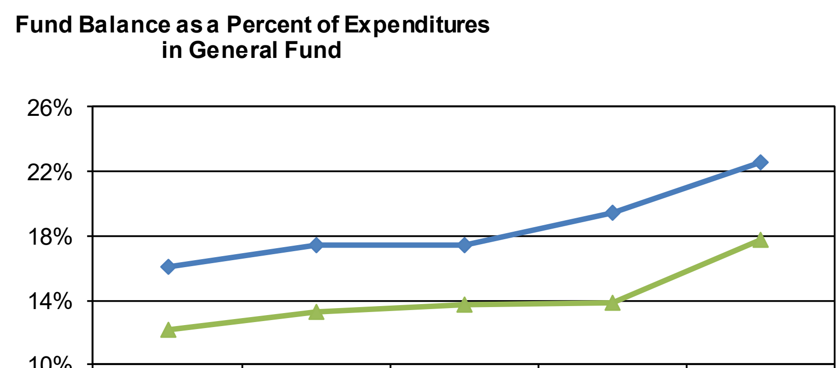
Budget to Actual – Total revenues on a net basis in the General Fund were $504,581 (or 0.34%) less than the budgeted amount while total expenditures were $2,408,648 (or 1.63%) lower than had been budgeted. The main reason for expenditures being under budget was due to lower expenditures for purchased services, supplies, and other materials during the spring months when the District was closed for distance learning as mandated by the state.

The net effect of the actual budget variances, including transfers in and other financing sources, was an increase to total fund balance that was approximately $2,451,570 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

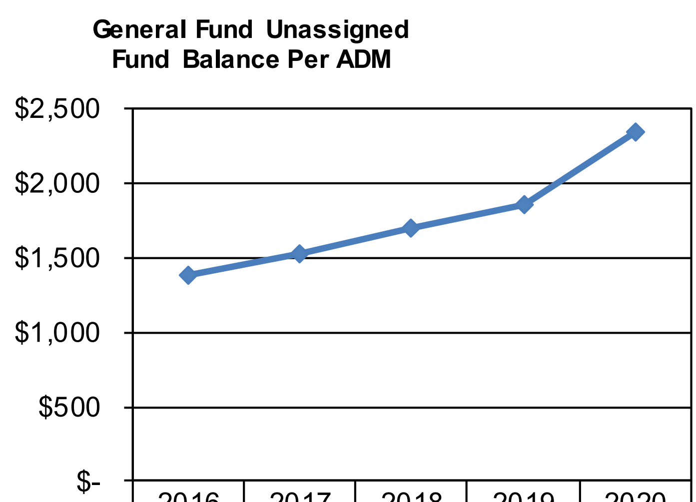
Fund Balances of the General Fund

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



	2016	2017	2018	2019	2020
Unassigned Fund Balance	14,054,648	16,065,042	18,225,254	20,175,858	25,906,236
Unassigned Fund Balance	12.15%	13.28%	13.77%	13.83%	17.76%
Total Fund Balance	18,657,653	21,102,336	23,092,720	28,367,299	32,955,275
Total Fund Balance	16.13%	17.44%	17.45%	19.45%	22.60%

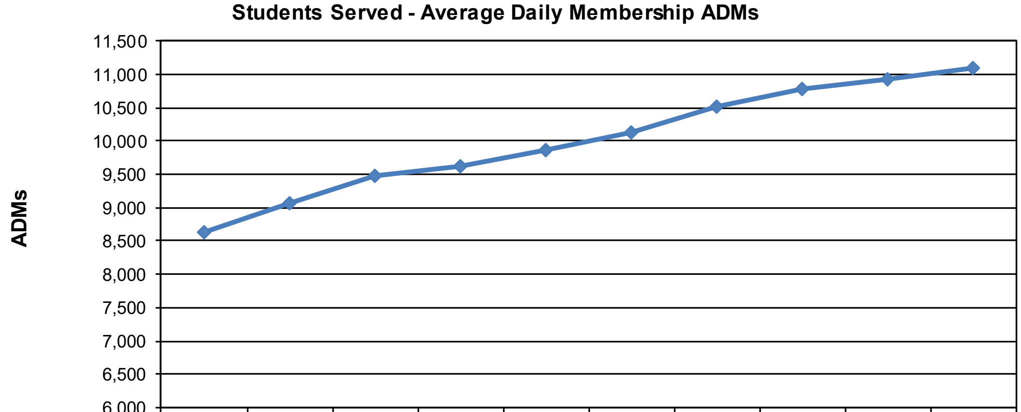
Per student served.



	2016	2017	2018	2019	2020
Fund Balance Per ADM	$1,387	$1,527	$1,692	$1,846	$2,336

I. FINANCIAL RESULTS (CONTINUED)

Students Served



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Students Served (ADMs)	8,624	9,057	9,467	9,624	9,859	10,131	10,521	10,774	10,927	11,088

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,	
	2020	2019
Total Fund Balance for Governmental Funds	$ 39,455,714	$ 38,508,367
Capital Assets, Less Accumulated Depreciation	161,099,747	158,929,878
Long-Term Liabilities	(172,235,764)	(173,849,546)
Net Pension Liability	(92,425,180)	(90,916,823)
Other Postemployment Benefits Liability	(9,935,594)	(9,879,719)
Deferred Inflows/Outflows for Pensions - Net	(32,738,687)	(24,075,362)
Other - Net	30,478,208	27,077,813
Total Net Position - Governmental Activities	$ (76,301,556)	$ (74,205,392)
Net Position		
Net Investment in Capital Assets	$ 16,057,639	$ 12,846,900
Restricted	6,057,675	9,970,960
Unrestricted	(98,416,870)	(97,023,252)
Total Net Position - Governmental Activities	$ (76,301,556)	$ (74,205,392)

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 2020 and 2019:

	As of June 30,	
	2020	2019
Net Change in Fund Balance - Total Governmental Funds	$ 947,347	$ 5,293,291
Capital Asset Purchases	9,188,434	8,833,640
Depreciation	(6,707,024)	(6,521,052)
Debt Proceeds	(20,430,000)	(29,316,614)
Issuance of Promissory Note	(547,000)	-
Repayment of Debt	22,917,625	28,976,075
Change in OPEB Liability	(55,874)	(82,466)
Change in Net Pension Liability and Related Deferred Outflows and Deferred Inflows	(10,171,682)	29,974,958
Change in Other Long-Term Liabilities	(500,521)	(2,325,085)
Other - Net	3,262,532	(657,554)
Change in Net Position - Governmental Activities	$ (2,096,163)	$ 34,175,193

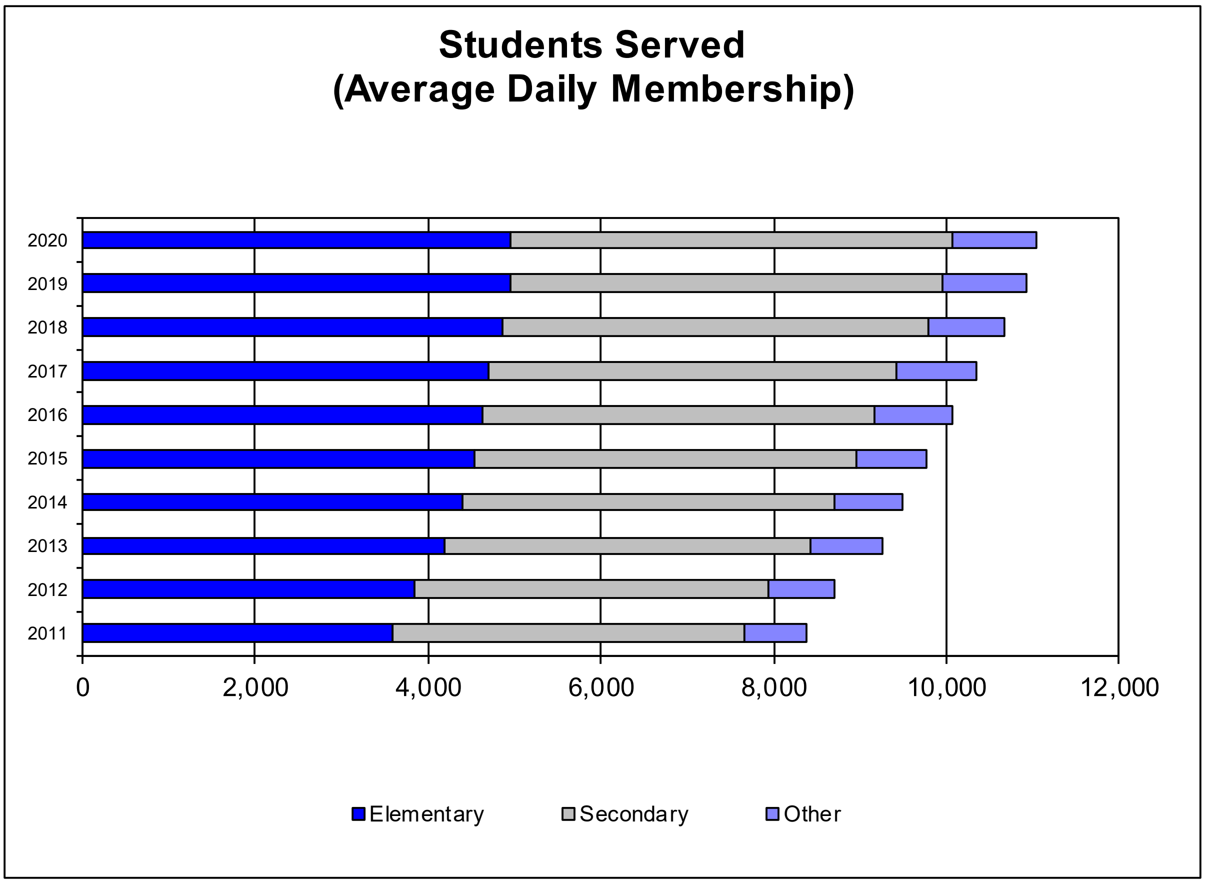
APPENDIX A

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:

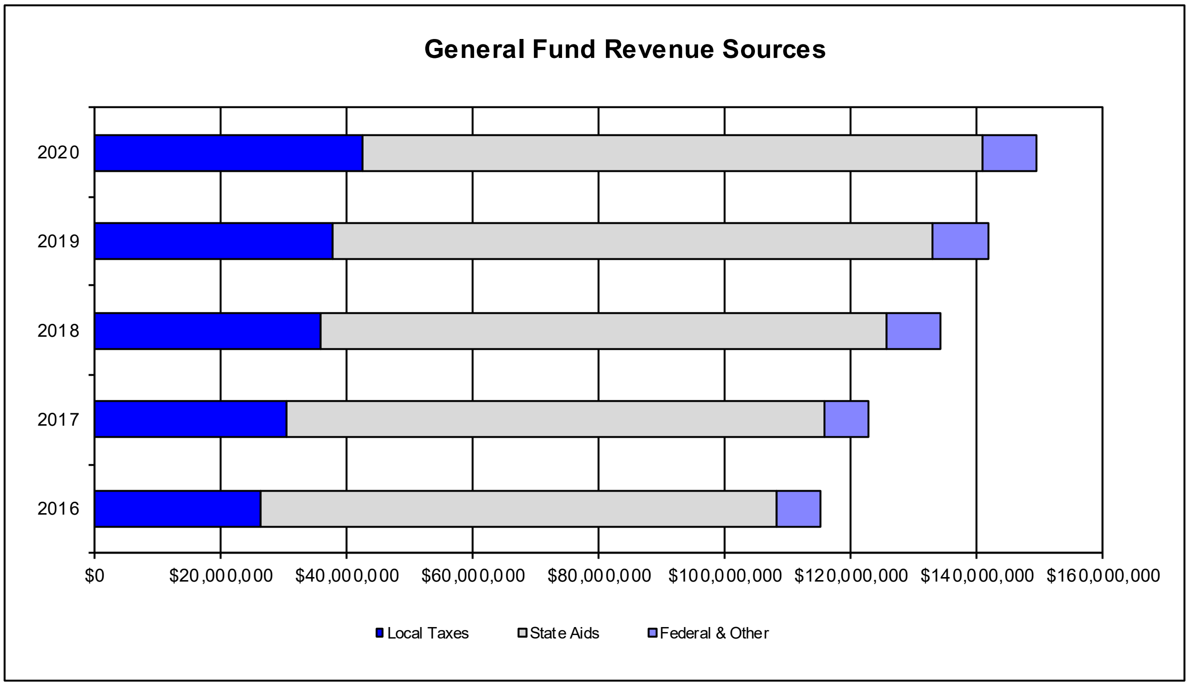


The District's average daily membership (ADM) for purposes of General Education Aid for fiscal 2020 was 11,088 students, which represents a net change of 161 more students than the prior year. Since fiscal 2011, the District's enrollment has increased by a net 32.85%.

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.

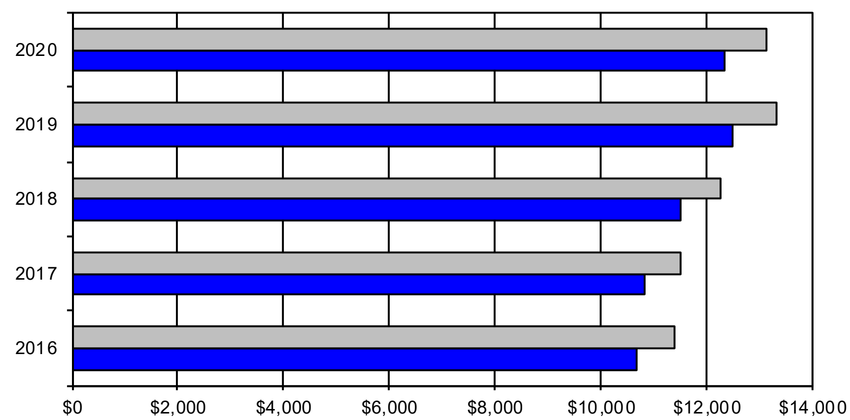
	Taxes		State		Federal and Other		
Year	Amount	Percent	Amount	Percent	Amount	Percent	Total
2016	$ 26,245,569	23 %	$ 81,970,155	71 %	$ 7,071,752	6 %	$ 115,287,476
2017	30,479,893	25	85,209,652	69	7,284,840	6	122,974,385
2018	36,045,639	27	89,582,947	67	8,488,583	6	134,117,169
2019	37,805,891	27	95,228,354	67	8,676,525	6	141,710,770
2020	42,472,695	28	98,568,215	66	8,468,074	6	149,508,984

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)



	2016	2017	2018	2019	2020
General Fund - All Expenditures	$11,419	$11,498	$12,281	$13,347	$13,153
Operating Expenditures	$10,701	$10,822	$11,508	$12,513	$12,361

General Fund Expenditures for fiscal 2020 were $145,841,617, which represents an increase of $3,459,329 or 2.43% from fiscal 2019.

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

	2020				2019
	Budget	Actual	Over (Under) Budget	Percent	Actual
Salaries	$ 91,570,533	$ 91,197,074	$ (373,459)	(0.4)%	$ 86,243,149
Employee Benefits	27,866,091	27,432,163	(433,928)	(1.6)	25,761,907
Purchased Services	11,180,794	11,018,418	(162,376)	(1.5)	11,702,458
Supplies and Materials	7,504,758	7,027,091	(477,667)	(6.4)	6,799,877
Capital Expenditures	3,964,712	3,402,382	(562,330)	(14.2)	5,834,717
Other Expenditures	6,163,377	5,764,489	(398,888)	(6.5)	6,040,180
Total Expenditures	$ 148,250,265	$ 145,841,617	$ (2,408,648)	(1.6)	$ 142,382,288

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 $2,408,648 of actual amounts or 1.6% for fiscal 2020. The main reason for the underage in actual expenditures as compared to budget due to lower expenditures for purchased services, supplies, and other materials during the period of March 18, 2020 through June 30, 2020, which is the period of time that the District was closed for distance learning as mandated by the state.

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,				
	2016	2017	2018	2019	2020
Revenues	$ 115,287,476	$ 122,974,385	$ 134,117,169	$ 141,710,770	$ 149,508,984
Expenditures	115,685,326	120,974,763	132,318,861	142,382,288	145,841,617
Excess (Deficiency) of Revenues Over (Under) Expenditures	(397,850)	1,999,622	1,798,308	(671,518)	3,667,367
Other Financing Sources:					
Loan Proceeds	-	-	-	-	547,000
Capital Lease Proceeds	-	-	-	2,521,614	-
Operating Transfers In	-	445,061	192,076	3,424,483	373,663
Operating Transfers In (Out)	-	-	-		(54)
Total Other Financing Sources	-	445,061	192,076	5,946,097	920,609
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(397,850)	2,444,683	1,990,384	5,274,579	4,587,976
Fund Balance:					
Beginning of Year	19,055,503	18,657,653	21,102,336	23,092,720	28,367,299
End of Year	$ 18,657,653	$ 21,102,336	$ 23,092,720	$ 28,367,299	$ 32,955,275
Nonspendable Fund Balance	$ 779,705	$ 1,168,168	$ 1,677,381	$ 2,434,164	$ 1,830,729
Restricted Fund Balance	628,474	469,509	(4,750)	2,916,480	2,700,222
Assigned Fund Balance	3,194,826	3,399,617	3,194,835	2,840,797	2,518,088
Unassigned Fund Balance	14,054,648	16,065,042	18,225,254	20,175,858	25,906,236
Total Fund Balance	$ 18,657,653	$ 21,102,336	$ 23,092,720	$ 28,367,299	$ 32,955,275
Undesignated/Unassigned Fund Balance as a Percentage of Expenditures	12.15%	13.28%	13.77%	14.17%	17.76%
Total Fund Balance as a Percentage of Expenditures	16.13%	17.44%	17.45%	19.92%	22.60%

The District's General Fund had an excess of revenues and other financing sources over expenditures and other financing uses of $4,587,976 for fiscal 2020, bringing total fund balance to $32,955,275 at June 30, 2020. Total fund balance includes a net $1,830,729 in nonspendable accounts, $2,700,222 in restricted accounts (UFARS basis) as prescribed by state statute, and $2,518,088 in assigned accounts as determined by the School Board or finance department. That leaves an unassigned fund balance of $25,906,236 at year-end, which is 17.76% of General Fund expenditures. The ending fund balance exceeds the Board policy amount of 6.0% of expenditures.

Total General Fund revenues were lower than the budgeted amount for fiscal 2020 by $504,581 (or 0.34%). Total General Fund expenditures were lower than the budgeted amount by $2,408,648, or 1.63%. The net combined outcome of the budget variances, once other financing sources and uses budget variances were factored in, was to increase the total ending fund balance by approximately $2.45 million more than the planned increase of approximately $2.14 million.

APPENDIX A (CONTINUED)

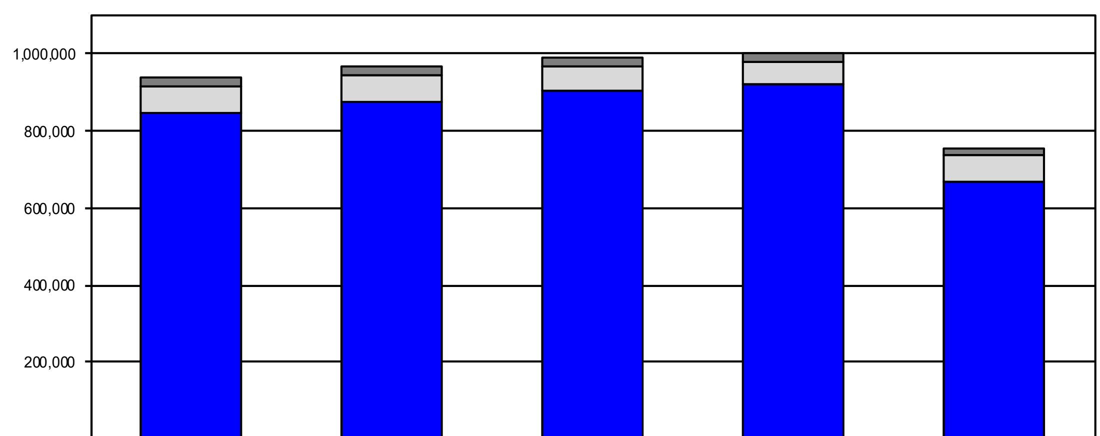
Food Service Fund

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

	Year Ended June 30,				
	2016	2017	2018	2019	2020
Revenues	$ 5,613,748	$ 5,847,979	$ 6,060,079	$ 6,213,010	$ 4,764,643
Expenditures	5,471,295	5,607,457	5,597,399	5,572,946	5,104,834
Excess (Deficiency) of Revenues Over (Under) Expenditures	142,453	240,522	462,680	640,064	(340,191)
Fund Balance:					
Beginning of Year	410,384	552,837	793,359	1,256,039	1,896,103
End of Year	$ 552,837	$ 793,359	$ 1,256,039	$ 1,896,103	$ 1,555,912
Lunches Served to Students	941,647	965,984	992,183	1,001,624	753,349
Revenue per Lunch Served	$ 5.96	$ 6.05	$ 6.11	$ 6.20	$ 6.32

Food Service expenditures include both operating funds and equipment replacement. Total expenditures exceeded revenues by $340,191 in the District's Food Service Fund for 2020, decreasing fund balance to $1,555,912 at June 30, 2020. Total Food Service Fund revenues on a net basis were approximately $1,590,330 lower than had been reflected in the budget, while total expenditures on a net basis were approximately $1,088,753 less than budgeted; therefore, the impact on ending fund balance was an approximate $501,577 decrease than had been budgeted.

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



	2016	2017	2018	2019	2020
Reduced Meals	24,442	20,637	22,914	19,686	15,659
Free Meals	68,832	68,390	66,822	57,761	69,931
Full-Price Meals	848,373	876,957	902,447	924,177	667,759
Total Meals Served	941,647	965,984	992,183	1,001,624	753,349

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, 2016	2017	2018	2019	2020
Revenues	$ 10,516,148	$ 11,381,289	$ 12,328,621	$ 13,265,443	$ 11,218,105
Expenditures	9,658,832	10,676,180	11,754,543	12,095,261	12,113,784
Excess (Deficiency) of Revenues Over (Under) Expenditures	857,316	705,109	574,078	1,170,182	(895,679)
Other Financing Sources					
Transfers Out	-	-	-	(3,300,000)	-
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Uses	857,316	705,109	574,078	(2,129,818)	(895,679)
Fund Balance:					
Beginning of Year	2,027,613	2,884,929	3,590,038	4,164,116	2,034,298
End of Year	$ 2,884,929	$ 3,590,038	$ 4,164,116	$ 2,034,298	$ 1,138,619
Fund Balance:					
Nonspendable	$ 148,369	$ 171,049	$ 137,970	$ 192,812	$ 56,493
Restricted for ECFE	-	-	10,160	82,345	212,523
Restricted for Community Ed	2,662,839	3,256,314	3,773,642	1,520,924	649,257
Restricted for School Readiness	126,336	207,000	215,021	216,361	200,143
Restricted for Adult Basic Educ	15,180	14,524	14,524	14,524	14,524
Restricted for Other Purposes	-	6,410	12,799	7,332	5,679
Unassigned	(67,795)	(65,259)	-	-	-
Total Fund Balance	$ 2,884,929	$ 3,590,038	$ 4,164,116	$ 2,034,298	$ 1,138,619

The District's Community Service Fund had a deficiency of revenues over expenditures and other financing uses of $895,679 for fiscal 2020, bringing the combined fund balance to a balance of $1,138,619 at June 30, 2020.

Total revenues of the District's Community Service Fund for 2020 were $2,478,715 less than the budgeted amount while total expenditures were under budget by $1,322,416. As a result, total fund balance decreased by $895,679 while the District had budgeted for an increase in total fund balance of $260,620.

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		
	2019	2019	2019	2018	2019	2020
District and School Admin and Support Services	$ 1,123	$ 1,079	$ 1,022	$ 922	$ 954	$ 973
Regular Instruction (including Co- & Extra-Curricular)	5,743	6,112	5,932	6,724	6,979	7,243
Vocational Instruction (Career & Technical)	168	165	170	58	53	81
Special Education Instruction	2,403	2,505	2,546	1,685	1,794	1,842
Instructional Support Services	650	751	746	644	617	586
Pupil Support Services (Excluding Transportation)	392	474	454	364	367	383
Pupil Transportation	790	808	777	459	457	485
Operations & Maintenance and Other	950	907	917	703	799	810
Food Service	559	556	553	510	503	440
Community Service	638	799	747	1,054	1,097	1,083
Capital Expenditure	806	675	714	360	551	336
Debt Service	1,354	1,454	1,433	1,483	1,357	1,283
Total Pre-K - 12 Operating Expenditures	$ 15,576	$ 16,285	$ 16,011	$ 14,967	$ 15,529	$ 15,546
Percent Change from Prior Year				4.15%	3.75%	0.11%

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 the 2020 legislative sessions (limited as they were) 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

The requirement to reserve a portion of compensatory revenue for extended time programming was eliminated beginning in fiscal 2021. Under the old law, districts would have been required to reserve 7.5% of compensatory revenue for extended time programming in fiscal 2021. However, the 5.5% of fiscal 2020 compensatory revenue (excludes regular formula amount and any grandfathered pilot amount) must still be reserved for extended time. Any balance remaining in balance sheet account 459 as of June 30, 2020 can only be used for extended time unless transferred out in fiscal 2020 or fiscal 2021 using the transfer provisions provided in law.

COVID-19 Formula Adjustments

Expanded the allowable uses of the regional library telecommunications aid for fiscal 2020 and later, to include improving internet access and access to technology with items that are not e-rated, including but not limited to, digital or online resources.

Addressed school finance formula glitches resulting from the conversion to the distance learning model as follows:

- Special Education Aid – fiscal 2020 expenditures for employees and contracted services that would have been eligible for state aid in the absence of school closures due to COVID-19 must be included as eligible expenditures for calculation of aid and for tuition billing, regardless of whether special education services were actually provided during the closure.
- School Meals – State aid savings due to lower meal counts for regular school food service programs are reallocated on a per meal served basis to schools providing summer food service meals between March 16 and June 30, 2020.
- Career and Technical Education (CTE) Revenue – If fiscal 2020 or 2021 revenue based on actual expenditures is below the February 2020 forecast estimate, the Minnesota Department of Education (MDE) is authorized to recalculate the revenue for expenditures incurred on or after March 18, 2020, in an equitable manner (e.g., increase the reimbursement rate) to ensure the full expected amount of funding is distributed to schools. The revenue must be prorated if it would exceed the February 2020 forecast estimates.
- Nonpublic Pupil Transportation Aid – Allows MDE to adjust FY 2020 pupil transportation expenditures used to determine fiscal 2022 aid to ensure that the full amount of aid estimated in the February 2020 forecast is equitably allocated among districts.
- Interdistrict Desegregation or Integration Transportation Aid – Allows MDE to adjust fiscal 2020 pupil transportation expenditures used to determine fiscal 2021 aid to ensure that the full amount of aid estimated in the February 2020 forecast is equitably allocated among districts.
- Adult Basic Education Aid – Allows MDE to recalculate the contact hour reimbursement rate for fiscal 2021 or otherwise adjust the formula to fully spend the amount estimated based on the February 2020 forecast. The aid must be prorated if it would exceed the February 2020 forecast estimates.

- Literacy Incentive Aid – Excludes tests administered during the 2019-20 school year from the three-year averages used in computing the aid for FY 2021, FY 2022, and FY 2023, and allows the commissioner to adjust the formula rates for these years to ensure that the aid does not fall below the amount estimated in the February 2020 forecast.
- School Age Care Revenue – For fiscal 2020 and 2021 only, for spending on or after March 18, 2020, each district's school-age care revenue continues at its approved amounts, and program funds may be reallocated consistent with the process and limitations of the fund transfer provisions in the bill.
- Community Education After-School Enrichment Revenue – For fiscal 2020 and 2021 only, for spending occurring on or after March 18, 2020, after-school enrichment revenue may be reallocated consistent with the process and limitations of the fund transfer provisions in the bill.
- Early Childhood Screening – Directs MDE to calculate the aid for fiscal 2020 and 2021 using the formula amounts set in statute for each age group and the 2018-19 school year counts of children screened for each age group.
- Achievement and Integration Revenue – Authorizes a school district to carry over any unspent balance of its approved budget for fiscal 2020 into fiscal 2021. If spent for approved purposes in fiscal 2021, the district would generate additional fiscal 2021 revenue over and above the regular formula limitations.

Fund Transfers

Allows a school district, charter school, or a cooperative unit to make operating fund and account transfers for fiscal years 2020 and 2021 only. The amounts to be transferred are limited to revenue not already assigned or encumbered by staff salary and benefits, or otherwise encumbered by federal law. There is a requirement that the fund or account transfer be revenue neutral for the district and not affect the receipt of its aid or levy. Board approval is required along with being well documented in the accounting records.

Debt Service Cash Flow

For fiscal 2021 only, a school district unable to make a required debt service payment because of an anticipated delay in property tax receipts may apply for modified cash flow payments under Minnesota Statutes, section 127A.45. The school district must apply in the form and manner specified by the commissioner of education and the commissioner must adjust the timing of Integrated Department of Education Aids System (IDEAS) state aid payments accordingly.

The following provisions were passed as part of the 1st special session.

Transportation Contracts

Contracts for the transportation of children or the purchase of fuel (vehicle or heating) are limited to 10 years in duration.

Referendum Notice

For referendum notices mailed on or after July 1, 2020, the maximum notice period was extended from 30 to 45 days.

APPENDIX D

ACCOUNTING UPDATE

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 was to be effective for reporting periods beginning after December 15, 2019. However, due to the impact of Covid-19, the effective date was moved back one and a half years to reporting periods beginning after June 15, 2021. 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 leases are 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 leased 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. Initially effective for reporting periods beginning after December 31, 2019 but postposed to reporting periods beginning after December 15, 2020. 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. Initially effective for reporting periods beginning after December 15, 2018 but postposed to reporting periods beginning after December 15, 2019.

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. Initially effective for reporting periods beginning after December 15, 2020 but postposed to reporting periods beginning after December 15, 2021.

GASB Statement No. 92 – Omnibus 2020

The primary objectives of this statement are to enhance comparability and consistency by addressing practice issues that have been identified during implementation and application of certain GASB statements.

This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

This statement clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units. It also modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. The statement also establishes accounting and financial reporting requirements for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans and modifies the investment valuation requirements for all Section 457 plans. The requirements related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. Requirements relating to the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans are effective immediately.

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, 2020, and have issued our report thereon dated November 24, 2020. 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

<u>Accounting policies</u>

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

In 2020, the District implemented GASB Statement No. 84, *Fiduciary Activities*. As a result, funds the District was holding as part of the Local Collaborative Time Study program are now being reported as a fiduciary fund in the financial statements.

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.

<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 2020. 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 2020 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 2020. 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.

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 November 24, 2020.

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 November 24, 2020, 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.

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 November 24, 2020.

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 November 24, 2020.

School Board
Independent School District No. 276
Minnetonka Public Schools

The introductory and statistical sections accompanying the financial statements, which are the responsibility of management, were prepared for purposes of additional analysis and are 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
November 24, 2020