



CliftonLarsonAllen LLP  
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December 15, 2020

School Board  
Independent School District No. 834  
Stillwater Area Public Schools  
Stillwater, 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. 834  
STILLWATER AREA PUBLIC SCHOOLS**

**EXECUTIVE AUDIT SUMMARY (EAS)**

**JUNE 30, 2020**

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STILLWATER AREA PUBLIC SCHOOLS  
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**EXECUTIVE AUDIT SUMMARY (EAS)  
FOR  
STILLWATER AREA PUBLIC SCHOOLS  
YEAR ENDED JUNE 30, 2020**

**AUDIT FINDINGS AND RESULTS**

We prepared this Executive Audit Summary and Management Report in conjunction with our audit of the District's financial records for the year ended June 30, 2020.

**Audit Opinion** – The financial statements are fairly stated. We issued what is known as a “clean” or “unmodified” audit opinion.

**Yellow Book Compliance Findings** – No compliance issues were noted in our review of laws, regulations, contracts, and grants that could have significant financial implications to the School.

**Internal Controls** – One “material weakness” in internal control was noted related to a restatement of beginning fund balance and net position to change the accounting for unearned revenue.

**Single Audit** – The District complied with all direct and material requirements of the major federal program tested (Minnesota Child Nutrition Cluster).

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

**Enrollment** – For fiscal 2019-2020, Stillwater Area Public Schools had an estimated total adjusted average daily membership of 8,453.09 (or net pupil units served of 9,283.07). For fiscal 2018-2019, the District had an estimated total adjusted average daily membership of 8,433.24 (or net pupil units served of 9,276.77).

**Fund Balance** – The School's General Fund unassigned fund balance for UFARS reporting purposes increased by \$3,381,726 during fiscal year 2020, increasing from a restated unassigned balance of \$7,011,832 to \$10,393,558. Total fund balance of the General Fund increased by \$6,784,455, ending at \$28,717,124 as of June 30, 2020. The total ending unassigned fund balance represents 9.71% of General Fund expenditures. A District's fund balance is an important aspect in considering the School's financial wellbeing since a healthy fund balance represents things such as cash flow, as a cushion against unanticipated expenditures, enrollment changes, funding deficiencies, and aid prorations at the state level and similar problems.

**Budget to Actual** – Total revenues on a net basis in the General Fund were \$88,338 (or 0.1%) lower than the budgeted amount and total expenditures were \$6.4 million (or 5.6%) lower than had been budgeted. However, nearly \$3.8 million of this amount was the timing of capital-related amounts. The net effect, including other financing sources, was an increase in total fund balance that was \$6.3 million more than had been reflected in the District's final amended budget.

# FINANCIAL TRENDS

## ISD NO. 834 - STILLWATER

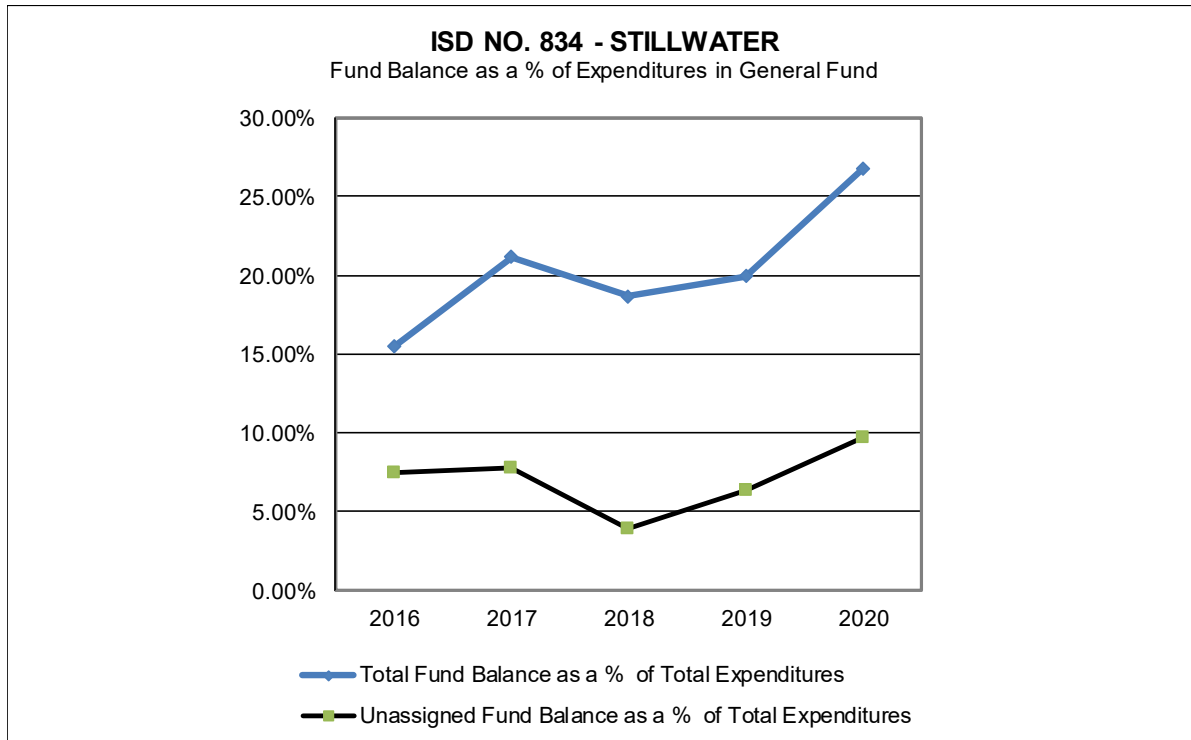
### AUDITED FUND BALANCES THROUGH JUNE 30, 2020

| FUND DESCRIPTION                                       | 6/30/2019<br>AUDITED<br>BALANCE | 2019-20<br>AUDITED<br>REVENUES | TRANSFERS<br>INTO<br>FUNDS | 2019-20<br>AUDITED<br>EXPENDITURES | TRANSFERS<br>OUT OF<br>FUNDS | 6/30/20<br>AUDITED<br>BALANCE |
|--|---------------------------------|--------------------------------|----------------------------|------------------------------------|------------------------------|-------------------------------|
| <b>GENERAL FUND</b>                                    |                                 |                                |                            |                                    |                              |                               |
| <b>A. UNASSIGNED - OPERATING</b>                       | \$ 7,011,832                    | \$ 95,532,129                  | \$ (755,814)               | \$ 91,394,589                      | \$ -                         | \$ 10,393,558                 |
| As a percentage of current year operating expenditures | 6.37%                           |                                |                            |                                    |                              | 9.71%                         |
| <b>B. NONSPENDABLE FOR</b>                             |                                 |                                |                            |                                    |                              |                               |
| PREPAID ITEMS  | \$ 133,500                      | \$ 43,479                      | \$ -                       | \$ -                               | \$ -                         | \$ 176,979                    |
| <b>C. RESTRICTED FOR</b>                               |                                 |                                |                            |                                    |                              |                               |
| LEARNING AND DEVELOPMENT                               | \$ -                            | \$ 1,808,135                   | \$ 24,732                  | \$ 1,832,867                       |                              | \$ -                          |
| STUDENT ACTIVITIES                                     | -                               | 251,068                        |                            | 178,206                            |                              | 72,862                        |
| SCHOLARSHIPS   | -                               | 390,247                        |                            | 109,496                            |                              | 280,751                       |
| ACHIEVEMENT AND INTEGRATION                            | 11,490                          | 992,665                        |                            | 852,452                            |                              | 151,703                       |
| MEDICAL ASSISTANCE                                     | -                               | 311,405                        |                            | 311,405                            |                              | -                             |
| GIFTED AND TALENTED                                    | -                               | 120,680                        |                            | 120,680                            |                              | -                             |
| BASIC SKILLS   | -                               | 926,070                        | 561,413                    | 1,487,483                          |                              | -                             |
| SAFE SCHOOLS   | -                               | 767,512                        |                            | 508,269                            |                              | 259,243                       |
| COOPERATIVE PROGRAMS                                   | -                               | 450,498                        | 169,669                    | 620,167                            |                              | -                             |
| STAFF DEVELOPMENT                                      | 274,038                         | 1,195,141                      |                            | 1,118,485                          |                              | 350,694                       |
| LTFM   | 6,550,976                       | 5,527,224                      |                            | 4,701,448                          |                              | 7,376,822                     |
| OPERATING CAPITAL                                      | 5,550,528                       | 3,081,227                      |                            | 2,384,865                          |                              | 6,246,890                     |
| TOTAL RESTRICTED                                       | \$ 12,387,032                   | \$ 15,821,942                  | \$ 755,814                 | \$ 14,225,823                      | \$ -                         | \$ 14,738,965                 |
| <b>D. COMMITTED FOR</b>                                |                                 |                                |                            |                                    |                              |                               |
| TECHNOLOGY   | \$ 983,815                      | \$ -                           | \$ -                       | \$ -                               | \$ -                         | \$ 983,815                    |
| <b>E. ASSIGNED FOR</b>                                 |                                 |                                |                            |                                    |                              |                               |
| SEVERANCE BENEFITS                                     | \$ 470,000                      | \$ 50,000                      |                            | \$ -                               |                              | \$ 520,000                    |
| FACILITY USE IMPROVEMENTS                              | 389,379                         | 51,190                         |                            | -                                  |                              | 440,569                       |
| ALTERNATIVE COMPENSATION Q-COMP                        | 370,493                         | 1,419,743                      |                            | 1,426,785                          |                              | 363,451                       |
| LEARNING AND INNOVATION                                | 186,618                         | -                              |                            | 44,618                             |                              | 142,000                       |
| GRANTS   | -                               | 455,260                        |                            | -                                  |                              | 455,260                       |
| DONATIONS  | -                               | 502,527                        |                            | -                                  |                              | 502,527                       |
| TOTAL ASSIGNED   | \$ 1,416,490                    | \$ 2,478,720                   | \$ -                       | \$ 1,471,403                       | \$ -                         | \$ 2,423,807                  |
| <b>TOTAL GENERAL FUND</b>                              | <b>\$ 21,932,669</b>            | <b>\$ 113,876,270</b>          | <b>\$ -</b>                | <b>\$ 107,091,815</b>              | <b>\$ -</b>                  | <b>\$ 28,717,124</b>          |
| BUDGET   |                                 | \$113,975,831                  |                            | \$113,479,468                      |                              | \$22,429,032                  |
| DIFFERENCE   |                                 | (\$99,561)                     |                            | (\$6,387,653)                      |                              | \$6,288,092                   |
| % VARIANCE   |                                 | -0.09%                         |                            | -5.63%                             |                              |                               |
| <b>FOOD SERVICE</b>                                    |                                 |                                |                            |                                    |                              |                               |
| NONSPENDABLE FOR INVENTORY                             | \$ 52,710                       | \$ 22,342                      |                            | \$ -                               |                              | \$ 75,052                     |
| RESTRICTED FOR FOOD SERVICE PROGRAM                    | 901,047                         | 3,902,142                      |                            | 3,744,400                          |                              | 1,058,789                     |
| BUDGET   |                                 | \$4,467,651                    | \$ -                       | \$4,257,942                        |                              | \$1,163,466                   |
| <b>TOTAL FOOD SERVICE</b>                              | <b>\$ 953,757</b>               | <b>\$ 3,924,484</b>            | <b>\$ -</b>                | <b>\$ 3,744,400</b>                | <b>\$ -</b>                  | <b>\$ 1,133,841</b>           |
| DIFFERENCE   |                                 | (\$543,167)                    |                            | (\$513,542)                        |                              | (\$29,625)                    |
| % VARIANCE   |                                 | -12.16%                        |                            | -12.06%                            |                              |                               |
| <b>COMMUNITY EDUCATION</b>                             |                                 |                                |                            |                                    |                              |                               |
| NONSPENDABLE FOR PREPAID ITEMS                         | \$ 650                          | \$ 1,150                       |                            | \$ 650                             |                              | \$ 1,150                      |
| <b>A. RESTRICTED FOR</b>                               |                                 |                                |                            |                                    |                              |                               |
| REGULAR COMMUNITY ED PROGRAMS                          | \$ 1,432,504                    | \$ 4,043,186                   | \$ -                       | \$ 4,479,520                       |                              | \$ 996,170                    |
| EARLY CHILDHOOD FAMILY ED PROGRAMS                     | 11,310                          | 588,616                        |                            | 594,684                            |                              | 5,242                         |
| ADULT BASIC EDUCATION PROGRAMS                         | -                               | 185,027                        |                            | 185,027                            |                              | -                             |
| SCHOOL READINESS                                       | 29,238                          | 1,315,662                      |                            | 1,762,154                          |                              | (417,254)                     |
| BUDGET   |                                 | \$7,467,253                    |                            | \$7,654,144                        |                              | \$1,286,811                   |
| <b>TOTAL COMMUNITY EDUCATION</b>                       | <b>\$ 1,473,702</b>             | <b>\$ 6,133,641</b>            | <b>\$ -</b>                | <b>\$ 7,022,035</b>                | <b>\$ -</b>                  | <b>\$ 585,308</b>             |
| DIFFERENCE   |                                 | (\$1,333,612)                  |                            | (\$632,109)                        |                              | (\$701,503)                   |
| % VARIANCE   |                                 | -17.86%                        |                            | -8.26%                             |                              |                               |
| <b>CAPITAL PROJECTS - BUILDING CONSTRUCTION</b>        |                                 |                                |                            |                                    |                              |                               |
| <b>A. RESTRICTED FOR</b>                               |                                 |                                |                            |                                    |                              |                               |
| CAPITAL PROJECTS                                       | \$ 4,342,920                    | \$ 43,840                      |                            | \$ 3,014,560                       |                              | \$ 1,372,200                  |
| BUDGET   |                                 | \$75,000                       |                            | \$3,012,980                        |                              | \$1,404,940                   |
| <b>TOTAL BUILDING FUND</b>                             | <b>\$ 4,342,920</b>             | <b>\$ 43,840</b>               | <b>\$ -</b>                | <b>\$ 3,014,560</b>                | <b>\$ -</b>                  | <b>\$ 1,372,200</b>           |
| DIFFERENCE   |                                 | (\$31,160)                     |                            | \$1,580                            |                              | (\$32,740)                    |
| <b>DEBT SERVICE</b>                                    |                                 |                                |                            |                                    |                              |                               |
| <b>A. RESTRICTED FOR</b>                               |                                 |                                |                            |                                    |                              |                               |
| OPERATING DEBT SERVICE                                 | \$ 2,962,013                    | \$ 10,023,670                  | \$ 84,079                  | \$ 10,209,583                      | \$ -                         | \$ 2,860,179                  |
| BOND REFUNDING   | -                               | 6,054,079                      |                            | 5,970,000                          | 84,079                       | -                             |
| BUDGET   |                                 | \$10,042,887                   |                            | \$10,113,258                       |                              | \$2,891,642                   |
| <b>TOTAL DEBT SERVICE</b>                              | <b>\$ 2,962,013</b>             | <b>\$ 16,077,749</b>           | <b>\$ 84,079</b>           | <b>\$ 16,179,583</b>               | <b>\$ 84,079</b>             | <b>\$ 2,860,179</b>           |
| DIFFERENCE   |                                 | \$6,034,862                    |                            | \$6,066,325                        |                              | (\$31,463)                    |
| % VARIANCE   |                                 | 60.09%                         |                            | 59.98%                             |                              |                               |
| <b>PROPRIETARY &amp; TRUST</b>                         |                                 |                                |                            |                                    |                              |                               |
| SCHOLARSHIP PRIVATE PURPOSE TRUST                      | \$ -                            | \$ 82,409                      |                            | \$ 13,532                          |                              | \$ 68,877                     |
| POST-EMPLOYMENT BENEFITS TRUST                         | 7,591,507                       | 314,520                        |                            | 1,011,168                          |                              | 6,894,859                     |
| INTERNAL SERVICE - SELF INS FUND                       | 3,434,621                       | 17,137,907                     |                            | 15,310,244                         |                              | 5,262,284                     |
| <b>PROPRIETARY &amp; TRUST</b>                         | <b>\$ 11,026,128</b>            | <b>\$ 17,534,836</b>           | <b>\$ -</b>                | <b>\$ 16,334,944</b>               | <b>\$ -</b>                  | <b>\$ 12,226,020</b>          |
| <b>TOTAL</b>   | <b>\$ 42,691,189</b>            | <b>\$ 157,590,820</b>          | <b>\$ 84,079</b>           | <b>\$ 153,387,337</b>              | <b>\$ 84,079</b>             | <b>\$ 46,894,672</b>          |

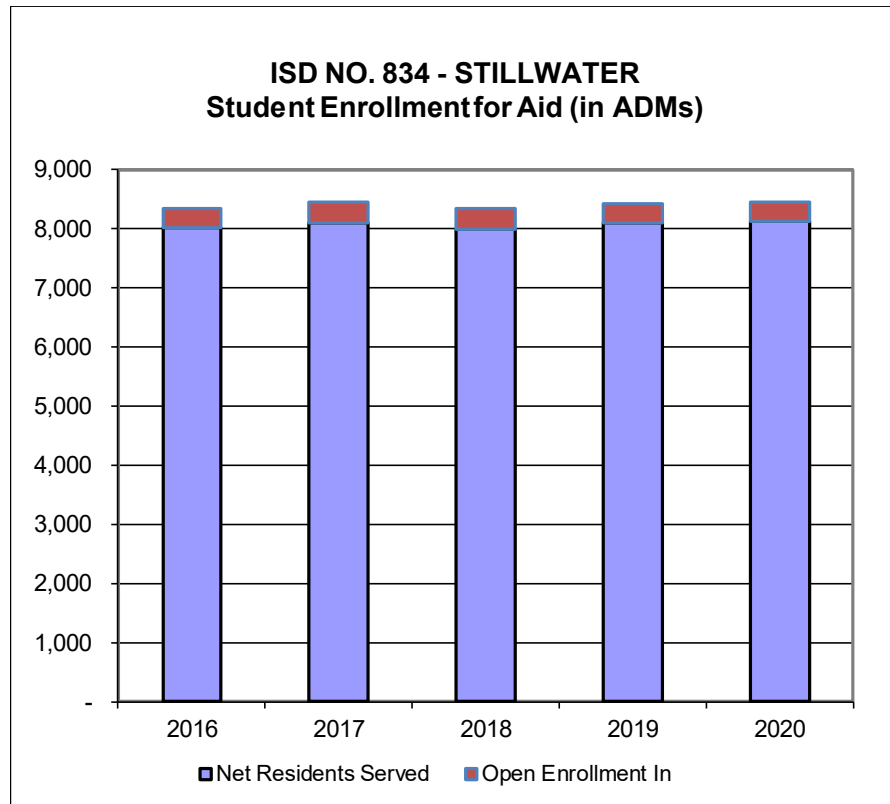
## Fund Balances of the General Fund

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

|   | 2016                  | 2017                  | 2018                  | 2019                  | 2020                  |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Unassigned Fund Balance                                     | \$ 7,753,286          | \$ 7,852,065          | \$ 4,215,589          | \$ 7,011,832          | \$ 10,393,558         |
| Assigned Fund Balance                                       | 1,851,841             | 3,351,587             | 3,974,155             | 1,416,490             | 2,423,807             |
| Committed Fund Balance                                      | 3,783,815             | 1,883,815             | 983,815               | 983,815               | 983,815               |
| Restricted Fund Balance                                     | 2,590,464             | 8,070,793             | 10,603,252            | 12,387,032            | 14,738,965            |
| Nonspendable Fund Balance                                   | 180,717               | 132,997               | 261,833               | 133,500               | 176,979               |
| <b>Total Fund Balance</b>                                   | <b>\$ 16,160,123</b>  | <b>\$ 21,291,257</b>  | <b>\$ 20,038,644</b>  | <b>\$ 21,932,669</b>  | <b>\$ 28,717,124</b>  |
| <b>Total Expenditures</b>                                   | <b>\$ 104,299,281</b> | <b>\$ 100,647,151</b> | <b>\$ 107,283,532</b> | <b>\$ 110,060,150</b> | <b>\$ 107,091,815</b> |
| <b>Total Fund Balance as a % of Total Expenditures</b>      | <b>15.49%</b>         | <b>21.15%</b>         | <b>18.68%</b>         | <b>19.93%</b>         | <b>26.82%</b>         |
| <b>Unassigned Fund Balance as a % of Total Expenditures</b> | <b>7.43%</b>          | <b>7.80%</b>          | <b>3.93%</b>          | <b>6.37%</b>          | <b>9.71%</b>          |



## Students Served for Aid



|                             | 2016       | 2017       | 2018       | 2019       | 2020       |
|-----------------------------|------------|------------|------------|------------|------------|
| Total Residents             | 9,657.41   | 9,732.00   | 9,790.24   | 9,952.06   | 9,976.35   |
| Open Enrollment Out*        | (1,652.33) | (1,621.97) | (1,797.03) | (1,863.02) | (1,850.23) |
| Net Residents Served        | 8,005.08   | 8,110.03   | 7,993.21   | 8,089.04   | 8,126.12   |
| Open Enrollment In          | 347.40     | 339.82     | 349.08     | 344.20     | 326.97     |
| Net ADM Served              | 8,352.48   | 8,449.85   | 8,342.29   | 8,433.24   | 8,453.09   |
| * including charter schools |            |            |            |            |            |
| Net Pupil Units Served      | 9,166.06   | 9,282.13   | 9,178.17   | 9,276.77   | 9,283.07   |

As reflected in the above chart and graph, the net impact of open enrollment out continues to be significant for the District.

## OTHER KEY TOPICS

### GASB Reporting Model

#### Statement of Net Position

The Statement of Net Position essentially tells you what your District owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the District has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, the statement divides the net position into three components: net investment in capital assets, restricted net position, and unrestricted net position. 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 ending balance of the Net Pension Liability at June 30, 2019 decreased significantly as a result of GASB requirements related to the actuarial calculations. 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     | \$ 34,668,652       | \$ 30,731,931         |
| Capital Assets, Less Accumulated Depreciation | 161,884,361         | 162,583,047           |
| Long-Term Liabilities                         | (101,439,085)       | (108,654,833)         |
| Net Pension Liability-related                 | (86,314,726)        | (80,362,286)          |
| Other - Net                                   | (9,357,224)         | (10,468,141)          |
| Total Net Position - Governmental Activities  | <u>\$ (558,022)</u> | <u>\$ (6,170,282)</u> |
| Net Position:                                 |                     |                       |
| Net Investment in Capital Assets              | \$ 62,505,284       | \$ 58,929,681         |
| Restricted                                    | 19,894,112          | 16,107,066            |
| Unrestricted                                  | (82,957,418)        | (81,207,029)          |
| Total Net Position - Governmental Activities  | <u>\$ (558,022)</u> | <u>\$ (6,170,282)</u> |

Most of the District's fund balances translate into restricted net position by virtue of external restrictions (statutory reserves) or by the nature of the fund they are in (e.g. unrestricted food service fund balance can only be spent for food service program costs). The unrestricted net position category consists mainly of the General Fund unreserved fund balances, offset against noncapital long-term obligations such as vacation or severance payable and 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.

## 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:

|   | Year Ended June 30, |                      |
|---|---------------------|----------------------|
|   | 2020                | 2019                 |
| Net Change in Fund Balance - Total Governmental Funds | \$ 3,003,591        | \$ (3,168,479)       |
| Capital Asset Purchases                               | 6,161,688           | 9,448,578            |
| Depreciation  | (6,860,374)         | (6,707,965)          |
| Payment to Refunded Bond Escrow Agent *               | (6,054,079)         | -                    |
| Repayment of Bonds Payable                            | 12,685,000          | 6,325,000            |
| Change in OPEB Liability                              | (776,740)           | (451,455)            |
| Change in net pension liability                       | (5,952,440)         | 21,759,304           |
| Other - Net   | 2,472,484           | 543,172              |
| Change in Net Position - Governmental Activities      | <u>\$ 4,679,130</u> | <u>\$ 27,748,155</u> |

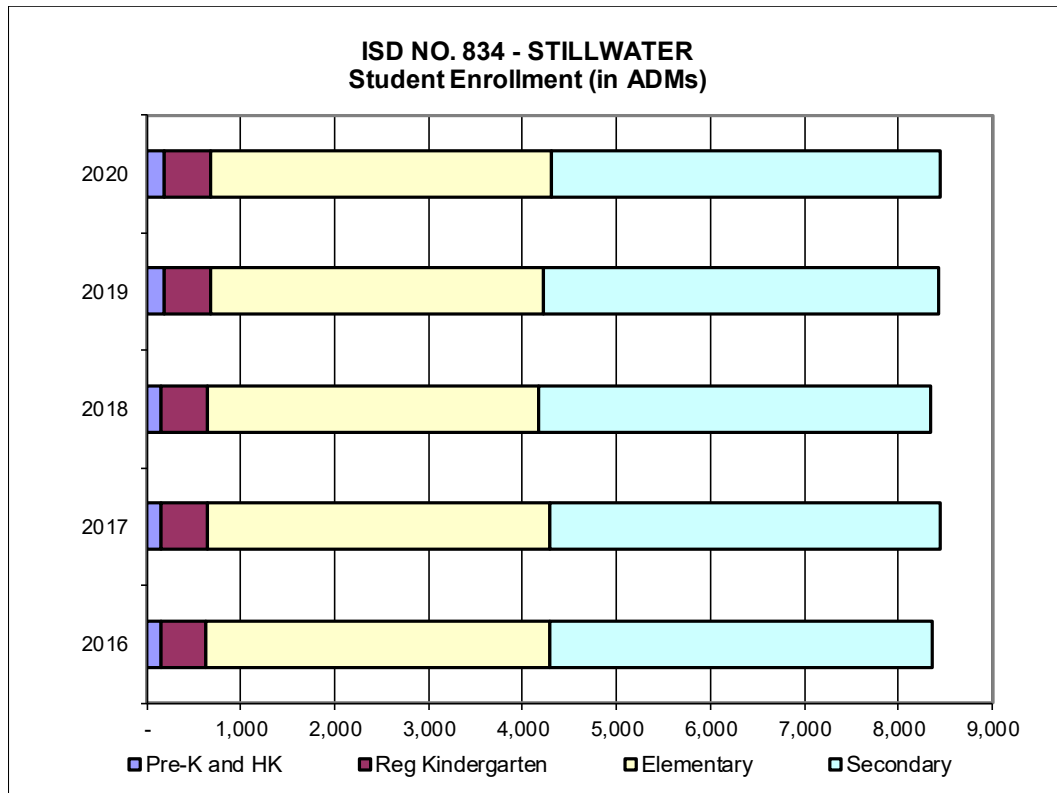
\* - includes bond refunding activities which save taxpayer dollars

## APPENDIX A

### FINANCIAL TRENDS OF YOUR DISTRICT

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

#### Student Enrollment (Average Daily Membership-ADM)

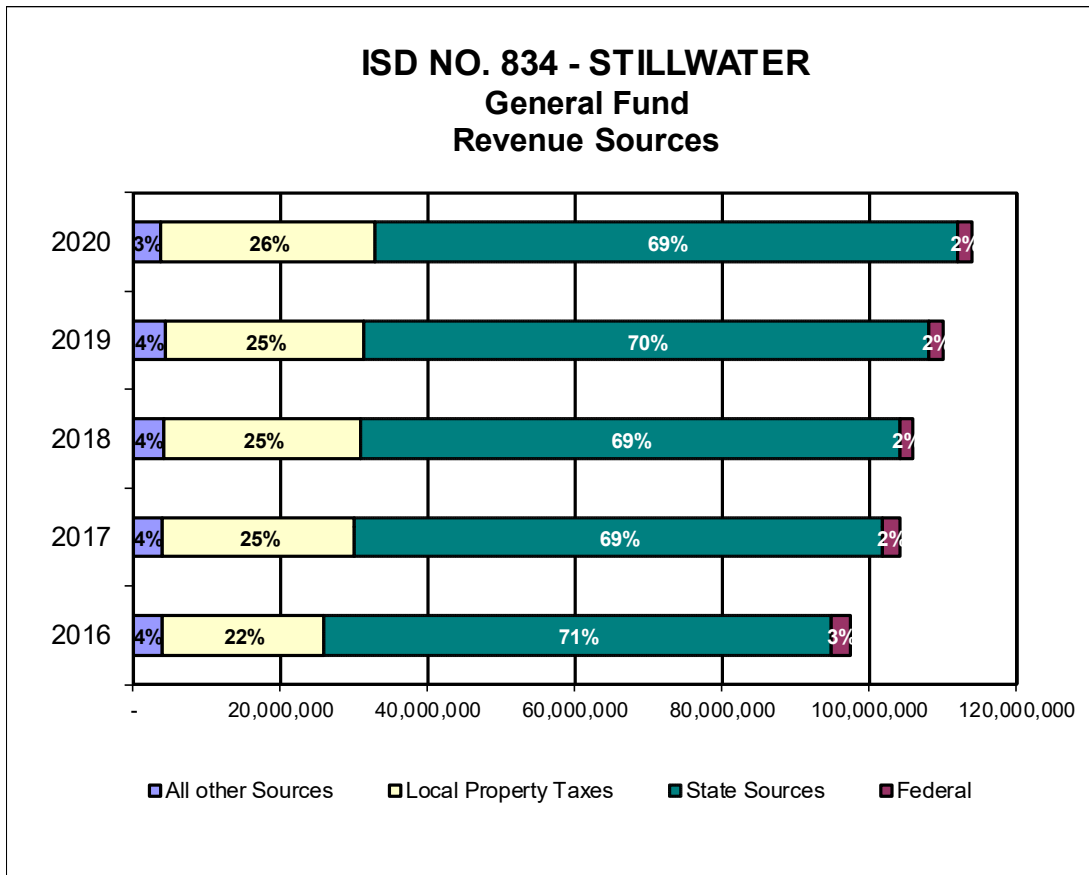


|                  | 2016     | 2017     | 2018     | 2019     | 2020     |
|------------------|----------|----------|----------|----------|----------|
| Pre-K and HK     | 149.69   | 144.04   | 146.66   | 178.37   | 194.00   |
| Reg Kindergarten | 477.26   | 495.45   | 493.72   | 506.73   | 487.48   |
| Elementary       | 3,657.63 | 3,648.54 | 3,522.57 | 3,530.51 | 3,621.74 |
| Secondary        | 4,067.90 | 4,161.82 | 4,179.34 | 4,217.63 | 4,149.87 |
| Net ADM Served   | 8,352.48 | 8,449.85 | 8,342.29 | 8,433.24 | 8,453.09 |
| Percent Change   |          | -1.03%   | 1.17%    | -1.27%   | 1.09%    |

As noted in the above chart, the District's student ADM's for fiscal 2019-2020 was 20 ADMs (or 0.24%) higher than the prior year.

## General Fund Revenue

The following table and graph summarize 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.

|                      | 2016                 | 2017                  | 2018                  | 2019                  | 2020                  |
|----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Local Property Taxes | \$ 21,894,121        | \$ 26,092,174         | \$ 26,718,149         | \$ 27,016,038         | \$ 29,103,776         |
| State Sources        | 68,914,061           | 71,627,595            | 73,123,308            | 76,676,592            | 79,050,190            |
| Federal Sources      | 2,687,119            | 2,475,672             | 1,861,344             | 2,018,811             | 1,861,877             |
| All Other Sources    | 4,038,285            | 4,053,096             | 4,267,472             | 4,409,846             | 3,859,650             |
| Total Revenues       | <u>\$ 97,533,586</u> | <u>\$ 104,248,537</u> | <u>\$ 105,970,273</u> | <u>\$ 110,121,287</u> | <u>\$ 113,875,493</u> |

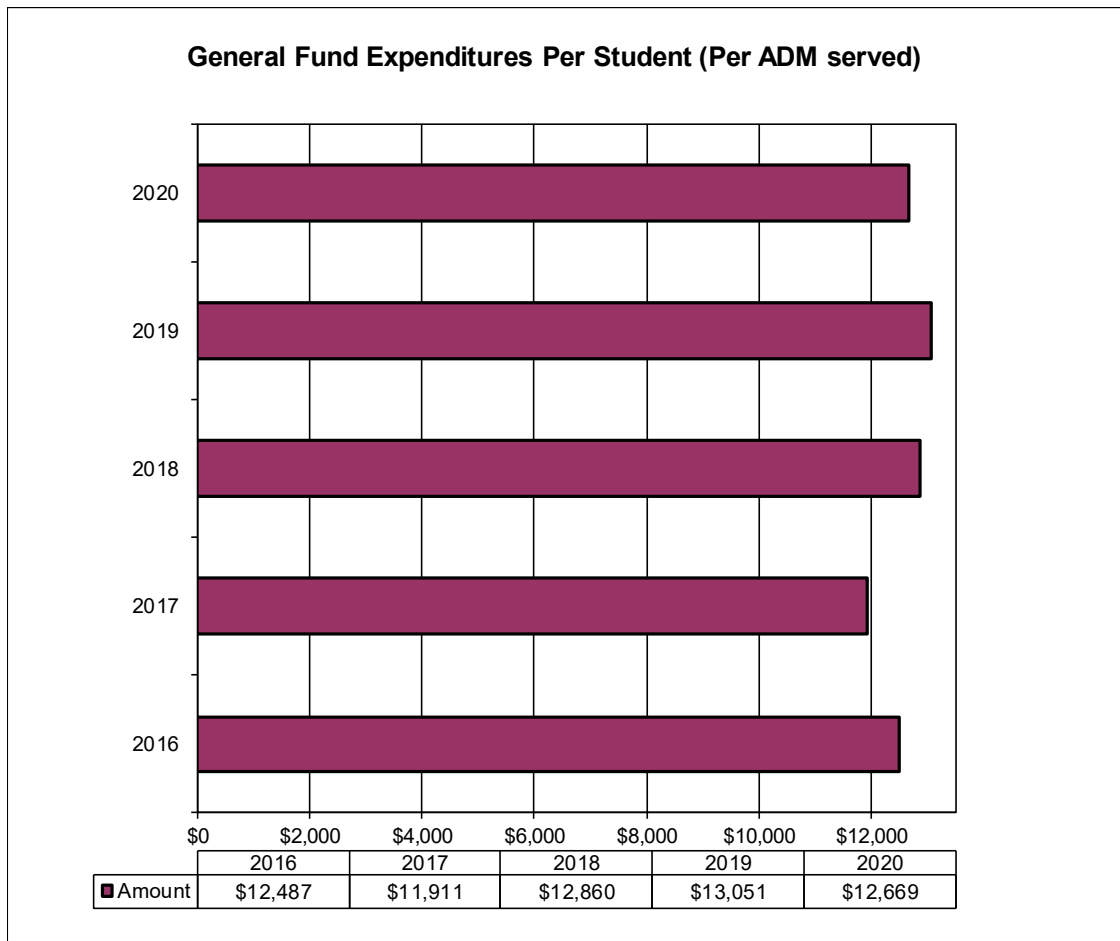
  

|                      | 2016        | 2017        | 2018        | 2019        | 2020        |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Local Property Taxes | 22%         | 25%         | 25%         | 25%         | 26%         |
| State Sources        | 71%         | 69%         | 69%         | 70%         | 69%         |
| Federal Sources      | 3%          | 2%          | 2%          | 2%          | 2%          |
| All Other Sources    | 4%          | 4%          | 4%          | 4%          | 3%          |
| Total Revenues       | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

## General Fund Expenditures

### EXPENDITURES PER ADM

Expenditures per ADM (average daily membership) are summarized in the following graph.



In fiscal 2020, General Fund expenditures per student decreased by 2.93% while total ADMs served increased 0.24%.

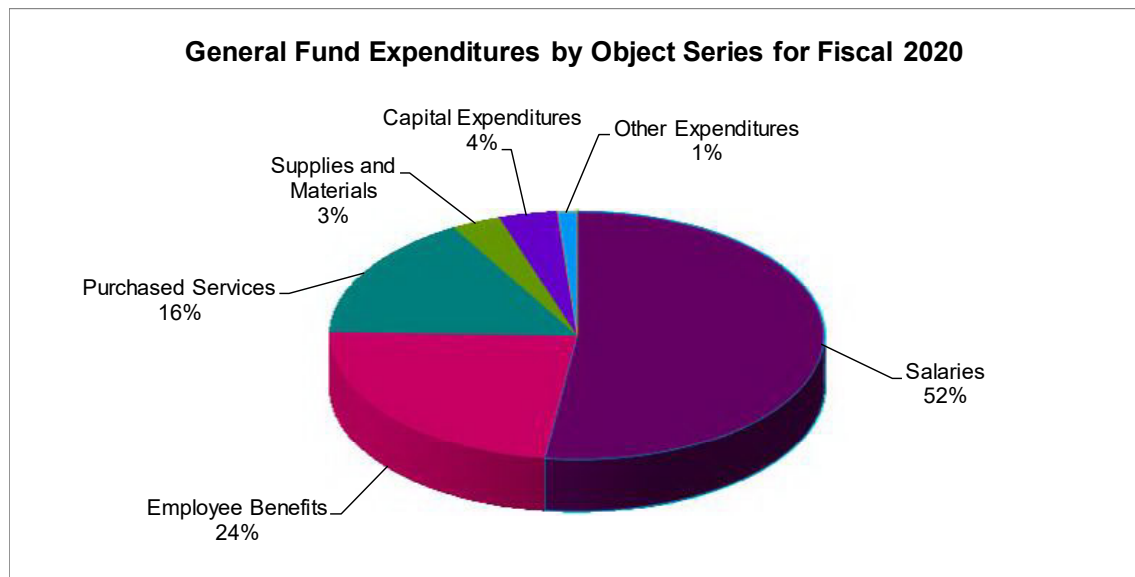
## General Fund Expenditures

The following chart summarizes District General Fund budget to actual expenditures by program dimension with capital outlay broken out and one year of comparative actual expenditures.

|                                | 2020                 |                |                     |            | 2019           | Change from the Prior Year |
|--------------------------------|----------------------|----------------|---------------------|------------|----------------|----------------------------|
|                                | Final Amended Budget | Actual         | Over (Under) Budget | Variance % | Actual         |                            |
| District and School Admin      | \$ 3,526,499         | \$ 3,596,442   | \$ 69,943           | 2.0%       | \$ 3,628,235   | \$ (31,793)                |
| District Support Services      | 3,841,149            | 3,985,321      | 144,172             | 3.8%       | 3,774,731      | 210,590                    |
| Regular Instruction            | 46,095,751           | 45,217,707     | (878,044)           | -1.9%      | 46,434,301     | (1,216,594)                |
| Vocational Instruction         | 1,378,405            | 1,380,944      | 2,539               | 0.2%       | 1,370,650      | 10,294                     |
| Special Education Instruction  | 20,297,323           | 20,240,628     | (56,695)            | -0.3%      | 19,527,685     | 712,943                    |
| Community Service              | -                    | -              | -                   | 0.0%       | 75,000         | (75,000)                   |
| Instructional Support Services | 7,118,022            | 6,455,293      | (662,729)           | -9.3%      | 7,248,996      | (793,703)                  |
| Pupil Support Services         | 12,728,231           | 12,089,424     | (638,807)           | -5.0%      | 12,112,530     | (23,106)                   |
| Sites and Buildings            | 17,342,798           | 12,882,696     | (4,460,102)         | -25.7%     | 14,766,990     | (1,884,294)                |
| Fixed Cost and Debt Service    | 1,151,290            | 1,243,360      | 92,070              | 8.0%       | 1,121,032      | 122,328                    |
| Total Expenditures             | \$ 113,479,468       | \$ 107,091,815 | \$ (6,387,653)      | -5.6%      | \$ 110,060,150 | \$ (2,968,335)             |

Note that for the Sites and Buildings category the District deferred a number of LTFM projects until fiscal 2021 that were budgeted for fiscal year 2020.

The following graph and chart summarize District General Fund budget to actual expenditures by object type with two years of comparative actual expenditures.



|                        | 2020                 |                |                     |        | 2019           | 2018           |
|------------------------|----------------------|----------------|---------------------|--------|----------------|----------------|
|                        | Final Amended Budget | Actual         | Over (Under) Budget | %      | Actual         | Actual         |
| Salaries               | \$ 56,882,317        | \$ 55,804,102  | \$ (1,078,215)      | -1.9%  | \$ 56,274,912  | \$ 54,439,355  |
| Employee Benefits      | 24,623,828           | 25,027,422     | 403,594             | 1.6%   | 25,017,802     | 24,264,558     |
| Purchased Services     | 19,855,441           | 17,366,091     | (2,489,350)         | -12.5% | 19,270,025     | 19,358,402     |
| Supplies and Materials | 3,198,310            | 3,424,780      | 226,470             | 7.1%   | 3,540,961      | 5,478,842      |
| Capital Expenditures   | 7,881,530            | 4,103,614      | (3,777,916)         | -47.9% | 4,675,635      | 2,458,817      |
| Other Expenditures     | 1,038,042            | 1,365,806      | 327,764             | 31.6%  | 1,280,815      | 1,283,558      |
| Total Expenditures     | \$ 113,479,468       | \$ 107,091,815 | \$ (6,387,653)      | -5.6%  | \$ 110,060,150 | \$ 107,283,532 |

On a net basis, total expenditures were 5.6% lower than reflected in the final amended budget. Excluding the timing of capital items, the District's budget variance would have been \$2,609,739 or 2.3%.

## General Fund Operations and Financial Position

The following table presents five years of comparative operating results for the District's General Fund.

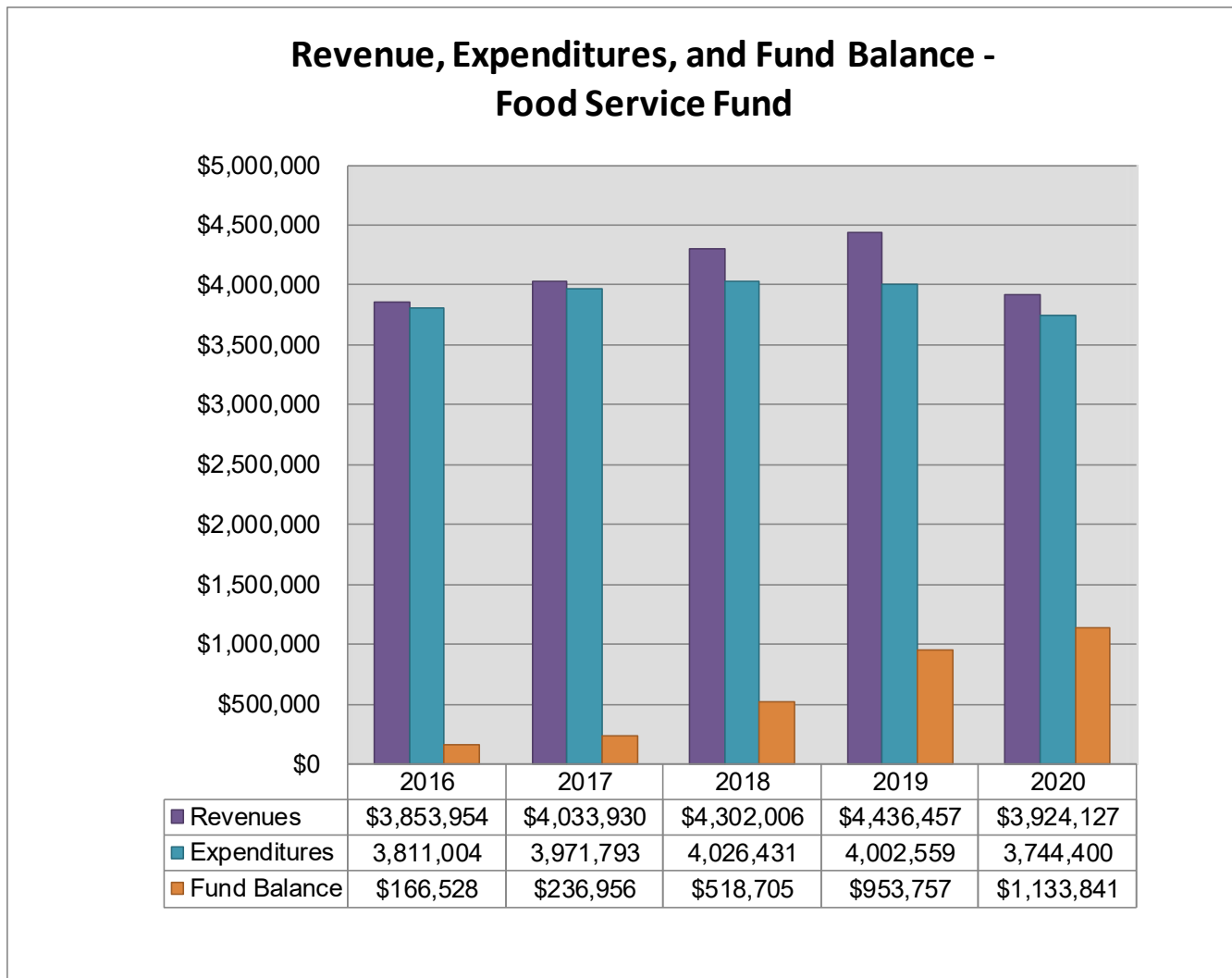
|   | Year Ended June 30, |                |                |                |                |
|---|---------------------|----------------|----------------|----------------|----------------|
|   | 2016                | 2017           | 2018           | 2019           | 2020           |
| Revenues  | \$ 97,533,586       | \$ 104,248,537 | \$ 105,970,273 | \$ 110,121,287 | \$ 113,875,493 |
| Expenditures  | 104,299,281         | 100,647,151    | 107,283,532    | 110,060,150    | 107,091,815    |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures                        | (6,765,695)         | 3,601,386      | (1,313,259)    | 61,137         | 6,783,678      |
| Other Financing Sources:  |                     |                |                |                |                |
| Special Item - Joint School Proceeds  | 8,918,771           | -              | -              | -              | -              |
| Sale of Capital Assets  | 5,333               | 1,529,748      | 60,646         | 899,758        | 777            |
| Total Other Financing<br>Sources  | 8,924,104           | 1,529,748      | 60,646         | 899,758        | 777            |
| Excess (Deficiency) of Revenues<br>and Other Financing Sources<br>Over Expenditures | 2,158,409           | 5,131,134      | (1,252,613)    | 960,895        | 6,784,455      |
| FUND BALANCE  |                     |                |                |                |                |
| Beginning of Year   | 14,001,714          | 16,160,123     | 21,291,257     | 20,038,644     | 21,932,669     |
| Prior Period Restatement  | -                   | -              | -              | 933,130        | -              |
| End of Year   | \$ 16,160,123       | \$ 21,291,257  | \$ 20,038,644  | \$ 21,932,669  | \$ 28,717,124  |
| Nonspendable Fund Balance   | \$ 180,717          | \$ 132,997     | \$ 261,833     | \$ 133,500     | \$ 176,979     |
| Restricted Fund Balance   | 2,590,464           | 8,070,793      | 10,603,252     | 12,387,032     | 14,738,965     |
| Committed Fund Balance  | 3,783,815           | 1,883,815      | 983,815        | 983,815        | 983,815        |
| Assigned Fund Balance   | 1,851,841           | 3,351,587      | 3,974,155      | 1,416,490      | 2,423,807      |
| Unassigned Fund Balance   | 7,753,286           | 7,852,065      | 4,215,589      | 7,011,832      | 10,393,558     |
| Total Fund Balance  | \$ 16,160,123       | \$ 21,291,257  | \$ 20,038,644  | \$ 21,932,669  | \$ 28,717,124  |
| Unassigned Fund Balance as<br>a Percentage of Expenditures                          | 7.43%               | 7.80%          | 3.93%          | 6.37%          | 9.71%          |
| Total Fund Balance as<br>a Percentage of Expenditures                               | 15.49%              | 21.15%         | 18.68%         | 19.93%         | 26.82%         |

The District's General Fund revenues and other financing sources exceeded expenditures by \$6,784,455 for fiscal 2020, increasing total fund balance to \$28,717,124 at June 30, 2020. Total fund balance (UFARS basis) includes a net of \$14,738,965 in restricted accounts as prescribed by state statute, \$983,815 in committed fund balance through formal board action, \$2,423,807 in board-assigned accounts, and \$176,979 in nonspendable fund balance. That leaves an unassigned fund balance of \$10,393,558 at year-end, which is 9.71% of General Fund expenditures.

General Fund expenditures for fiscal 2020 were \$107,091,815 which represents a decrease of \$2,968,335 or 2.7% from fiscal 2019, of which approximately 0.42% relates to salaries and benefits.

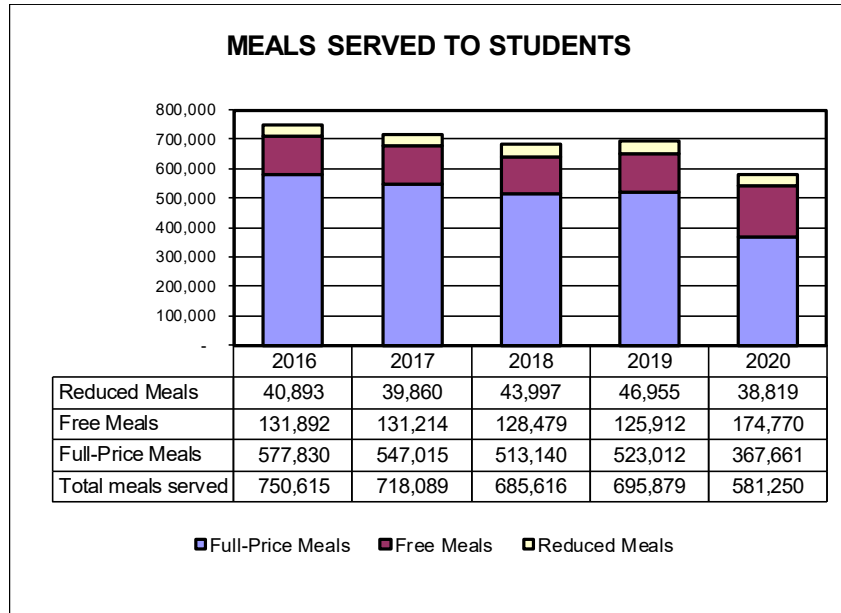
## Food Service Fund

The following chart reflects the financial results of the nutrition services program over the past five years:



Total revenues and other financing sources exceeded total expenditures by \$180,084 in the District's Food Service Fund for 2020, increasing fund balance to \$1,133,841 at June 30, 2020. The ending fund balance represents 30.3% of expenditures and provides for cashflow and can serve as a source for capital improvements to the food service program as needs warrant. During 2020, the District incurred \$77,425 of capital outlay invested back into the nutrition services program. Due to the impact of COVID-19, total net revenue was less than the final budgeted amount by \$543,274 (or 12.2%) while total expenditures were \$513,542 (or 12.1%) lower than the budgeted amount. The additional federal reimbursement revenue helped to offset the loss of sales to adults and ala carte sales during the required distance learning. The net impact of these variances was a net increase in the fund balance of the Food Service Fund which was just \$29,625 less than had been reflected in the budget.

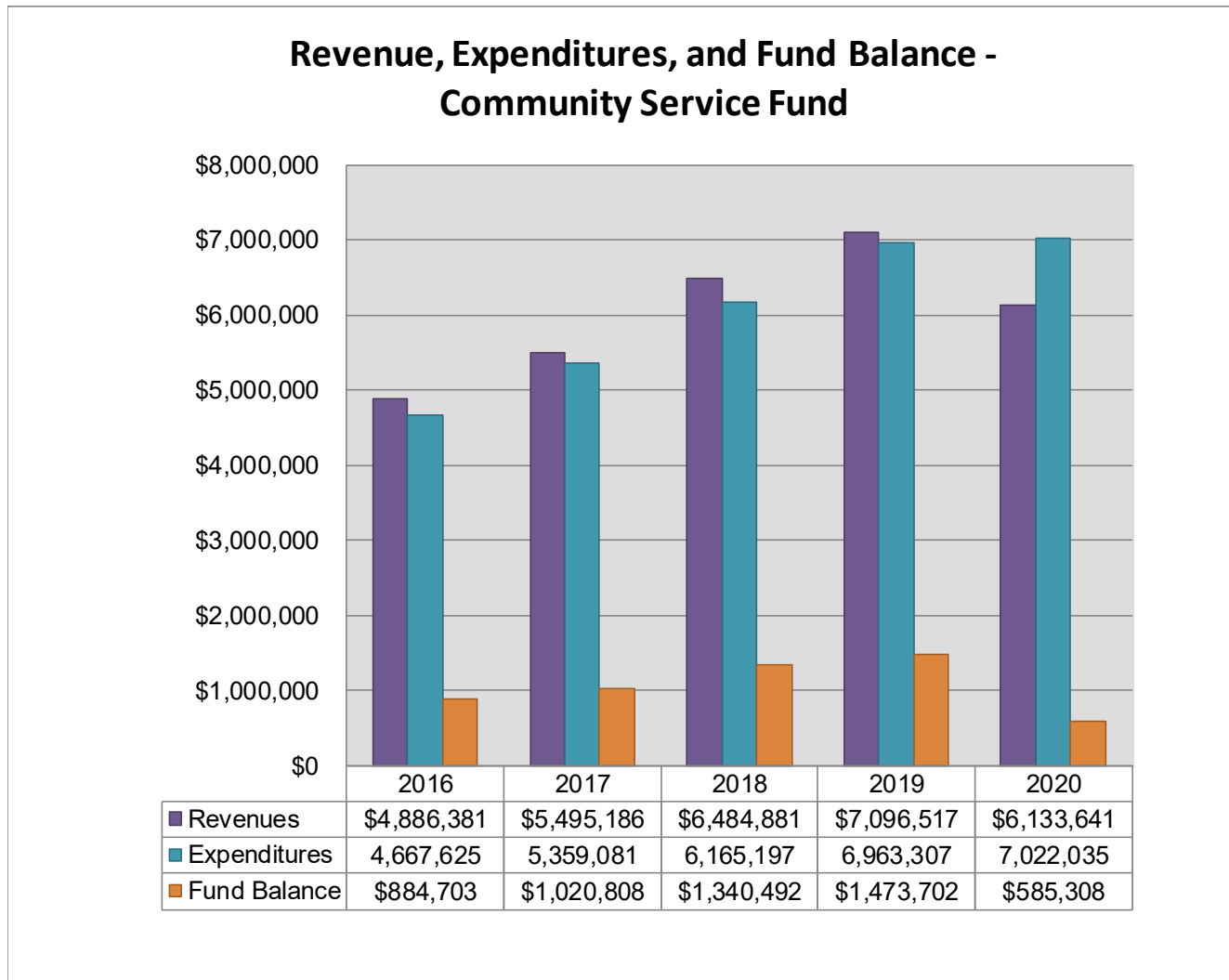
## Food Service Fund



| Year Ended June 30,   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
|   | 2016    | 2017    | 2018    | 2019    | 2020    |
| Percentage of Total Meals Served by Type (excluding Breakfast): |         |         |         |         |         |
| Full Price Meals  | 76.98%  | 76.18%  | 74.84%  | 75.16%  | 63.25%  |
| Reduced Price Meals   | 5.45%   | 5.55%   | 6.42%   | 6.75%   | 6.68%   |
| Free Meals  | 17.57%  | 18.27%  | 18.74%  | 18.09%  | 30.07%  |
| Total   | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

## Community Service Fund

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



The District's Community Service Fund had an excess of expenditures over revenues of \$888,394 for fiscal 2020, bringing the combined fund balance to \$585,308, or 8.3% of total expenditures at June 30, 2020. Total revenue was less than the final budgeted amount by \$1,333,612 while total expenditures were \$632,109 less than the budgeted amount.

## APPENDIX B

|  | Expenditures Per Student (ADM) Served |                  |                  |                                |                  |                  |
|--|---------------------------------------|------------------|------------------|--------------------------------|------------------|------------------|
|  | Statewide                             |                  |                  | ISD No. 834                    |                  |                  |
|  | All                                   | Seven County     | Enrollment       | Stillwater Area Public Schools |                  |                  |
|  | Districts                             | Metro Area       | > than 4,000     | 2018                           | 2019             | 2020             |
|  | 2019                                  | 2019             | 2019             |                                |                  |                  |
| District and School Admin and Support Services         | \$ 1,123                              | \$ 1,079         | \$ 1,022         | \$ 946                         | \$ 858           | \$ 854           |
| Regular Instruction (including Co- & Extra-Curricular) | 5,743                                 | 6,112            | 5,932            | 5,491                          | 5,459            | 5,321            |
| Vocational Instruction (Career & Technical)            | 168                                   | 165              | 170              | 169                            | 162              | 163              |
| Special Education Instruction                          | 2,403                                 | 2,505            | 2,546            | 2,234                          | 2,307            | 2,386            |
| Instructional Support Services                         | 650                                   | 751              | 746              | 855                            | 855              | 762              |
| Pupil Support Services (including Transportation)      | 1,182                                 | 1,282            | 1,231            | 1,416                          | 1,432            | 1,427            |
| Operations and Maintenance and Other                   | 950                                   | 907              | 917              | 1,310                          | 1,278            | 1,143            |
| General Fund Subtotal                                  | 12,219                                | 12,801           | 12,564           | 12,421                         | 12,351           | 12,055           |
| Food Service   | 559                                   | 556              | 553              | 473                            | 465              | 433              |
| Community Service                                      | 638                                   | 799              | 747              | 732                            | 830              | 826              |
| Capital Expenditure (excluding Building Constr Fund)   | 806                                   | 675              | 714              | 306                            | 563              | 496              |
| Debt Service   | 1,354                                 | 1,454            | 1,433            | 1,278                          | 1,261            | 1,302            |
| Total Pre-K - 12 Operating Expenditures                | <u>\$ 15,576</u>                      | <u>\$ 16,285</u> | <u>\$ 16,011</u> | <u>\$ 15,210</u>               | <u>\$ 15,469</u> | <u>\$ 15,112</u> |
| Percent Change from Prior Year                         |                                       |                  |                  | 3.07%                          | 1.71%            | -2.31%           |

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

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

the interaction between teachers and pupils in the classroom (excluding exceptional, vocational and community education instruction) and includes activities of aides or assistants of any type (paraprofessionals, clerks, graders, etc.) who assist in the educational process, except spec ed aides

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

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

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

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

Transportation - all costs for pupil transportation

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

Food service - all costs of the Food Service Fund

Community service - all costs of the Community Service Fund

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

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

## **APPENDIX C**

### **LEGISLATIVE ACTIVITY**

What follows are some education-related highlights of 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.

## **APPENDIX C (CONTINUED)**

- 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 1<sup>st</sup> 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 are leases under the new standard.** GASB 87 defines a lease as a “contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset), as specified in the contract, for a period of time in an exchange or exchange-like transaction.” Here are some of the agreements that can be excluded:
  - Short-term leases that are one year or less in duration.
  - Intangibles, such as investment assets, software licenses, and patents.
  - Financed purchases, where ownership of the asset transfers at the end of the lease without an additional payment.
- 3) **Review leases for multiple components.** Some leases include service agreements that will need to be split off from the entire lease. Many agreements (like service agreements and supply contracts) may qualify as leases under GASB 87. Some examples of service contracts that may have embedded leases can include cafeteria equipment, soda fountains, water coolers, coffee machines, etc., where the government may get to use a particular piece of equipment for free in return for the exclusive use of the provider’s products.
- 4) **Determine appropriate materiality thresholds for capitalization.** Work with your auditor to determine what this should be. Be aware that items that are well below that threshold individually may be material in the aggregate.

## APPENDIX D (CONTINUED)

- 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 postponed to reporting periods beginning after December 15, 2020. Earlier application is encouraged.

## APPENDIX D (CONTINUED)

### **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 postponed 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 postponed 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

## **APPENDIX D (CONTINUED)**

### **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. 834  
Stillwater Area Public Schools  
Stillwater, 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. 834 (the District) as of and for the year ended June 30, 2020, and have issued our report thereon dated December 15, 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***

###### **Accounting policies**

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

The District did implement GASB Statement No. 84, Fiduciary Activities.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

**Accounting estimates**

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

- Due from Minnesota Department of Education
- Due from the Federal Government through the Minnesota Department of Education
- Severance Benefits Payable
- Other Postemployment Benefits Payable
- Estimated Useful Lives of Depreciable Capital Assets
- Estimated proportionate share of PERA's and TRA's net pension liability

Management's estimate of 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. MDE calculates amounts owed to the District for special education excess cost tuition billing and adds the amount to the School's special education aid. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from the Federal Government through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal year 2020. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the SEDRA reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

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

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

Management's estimate of other postemployment benefits payable is based on an actuarially determined calculation, less actual payments incurred on behalf of retirees and an actuarially determined estimate of implicit rate subsidy, which is the estimated increased cost of premiums due to inclusion of retirees in the same plan as the District's active employees.

Management's estimate of useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

Management's estimate of the District's self-insurance incurred but not reported (IBNR) claims liability is based on lag reports for actual claims through July 2020 and any remaining outstanding claims that were still incurred prior to June 30, 2020 are estimated based on an estimate of the average claims lag for a 24-month rolling period, and the average monthly claims for that same period.

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***

The following material misstatement detected as a result of audit procedures were corrected by management:

- We noted the following misstatement in the amount of \$933,130. A restatement was necessary to properly present beginning fund balance of the General Fund and beginning Net Position of Governmental Activities due to an overstatement of unearned revenue in the prior year.

***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. We are pleased to report that no such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated December 15, 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 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 December 15, 2020.

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

With respect to the individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated December 15, 2020.

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**

Minneapolis, Minnesota  
December 15, 2020