MARTIN COUNTY WEST SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2448
SHERBURN, MINNESOTA

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2022

CliftonLarsonAllen LLP
CLAconnect.com

Board of Education
Martin County West Schools
Independent School District No. 2448
Sherburn, 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

Craig Popenhagen, CPA
Principal

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MARTIN COUNTY WEST SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2448
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EXECUTIVE AUDIT SUMMARY (EAS) FOR
MARTIN COUNTY WEST SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2448
YEAR ENDED JUNE 30, 2022

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, 2022.

Audit Opinion

The financial statements are fairly stated. We issued what is known as an unmodified (i.e. "clean") audit report.

Internal Control Over Financial Reporting

Two deficiencies in internal control over financial reporting were reported. These related to oversight of the financial reporting process and audit adjustments. These deficiencies were considered to be material weaknesses.

Compliance and Other Matters (Yellow Book)

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

Federal Program Compliance

No findings were noted relating to compliance with *Uniform Grant Guidance* or internal controls over such compliance.

Minnesota Legal Compliance

No findings over Minnesota Legal Compliance were noted.

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FORMAL REQUIRED COMMUNICATIONS

Board of Education
Martin County West Schools
Independent School District No. 2448
Sherburn, 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. 2448 (District) for the year ended June 30, 2022, and have issued our report thereon dated February 17, 2023. 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 in our engagement agreement dated June 1, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings or issues

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 changed accounting policies related to leases by adopting Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective July 1, 2021. There was no material impact on the District's net position/fund balance and changes in net position/fund balance as a result of the adoption of this accounting standard.

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.

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.

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The most sensitive estimates affecting the financial statements were:

- Due from Minnesota Department of Education
- Due from Federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Estimate of severance benefits payable
- Estimated other postemployment benefits payable
- 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 2021-2022. The most significant of these is the aid portion of general education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a statewide database – Minnesota Automated Reporting Student System (MARSS). Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2021-2022 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 federal sources through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2021-2022. 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 State Educational Record View and Submission (SERVS) 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 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 severance benefits payable is based on assumptions made by the District as required by GASB 16. A liability has been recorded in long-term debt for accumulated sick leave benefits convertible to early retirement pay for which it is probable the employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), and the potential use of accumulated sick leave prior to termination.

Management's estimate of other postemployment benefits payable is based on an actuarially determined calculation, less 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 the net pension liability is based on an actuarially determined calculation of the District's proportionate share of the net pension liability of cost-sharing multiple-employer pension plans sponsored by the Teachers Retirement Association and the Public Employees Retirement Association of Minnesota, in which the District participates.

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. We noted that revenues for a federal grant related to 2021 were recorded in 2022. As a result, revenues for 2022 were overstated and fund balance/net position as of July 1, 2021, was understated by $9,530 for the general fund and governmental activities opinion units. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

The following material misstatements detected as a result of audit procedures were corrected by management: entries to property tax revenues.

Disagreements with management

For purposes of this communication, a disagreement with management is a disagreement on 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.

Circumstances that affect the form and content of the auditors' report

As previously communicated to you, the report was modified to include an emphasis-of-a-matter paragraph to highlight the change in accounting principle related to the adoption of new accounting guidance for leases as follows:

> **Emphasis of Matter – Change in Accounting Principle**
>
> As discussed in Note 1 to the financial statements, effective July 1, 2021, the District adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Management representations

We have requested certain representations from management that are included in the management representation letter dated February 17, 2023.

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.

Required supplementary information

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.

Supplementary information in relation to the financial statements as a whole

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 February 17, 2023.

Board of Education
Martin County West Schools
Independent School District No. 2448

With respect to the Schedule of Changes in Fund Equities 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 February 17, 2023.

Other information included in annual reports

Other information (financial or nonfinancial information other than the financial statements and our auditors' report thereon) is being included in your annual report and is comprised of the listing of the board of education and administration. Our responsibility for other information included in your annual report does not extend beyond the financial information identified in our opinion on the financial statements. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in your annual report. We are required by professional standards to read the other information included in your annual report and consider whether a material inconsistency exists between the other information and the financial statements because the credibility of the financial statements and our auditors' report thereon may be undermined by material inconsistencies between the audited financial statements and other information. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. Our auditors' report on the financial statements includes a separate section, "Other Information," which states we do not express an opinion or any form of assurance on the other information included in the annual report. We did not identify any material inconsistencies between the other information and the audited financial statements.

* * *

This communication is intended solely for the information and use of the Board of Education 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

Rochester, Minnesota
February 17, 2023

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APPENDIX A

FINANCIAL TRENDS OF YOUR DISTRICT

The following graphs reflect financial trends of Martin County West Schools. Information related to fund balances were obtained from prior year and current year audit reports. Information from Martin County West Schools has been included when appropriate for comparison purposes.

The latter graphs show expenditures per student served compared to the four most recent years, state averages and the averages for comparable size school districts (students served of 500 – 999). Prior year expenditure data and state wide averages were obtained from the Minnesota Department of Education. Current year expenditures were obtained from the current year's audit report.

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ISD NO. 2448 Martin County West
General Fund
Nonspendable, Committed and Unassigned Fund Balance (UFARS)

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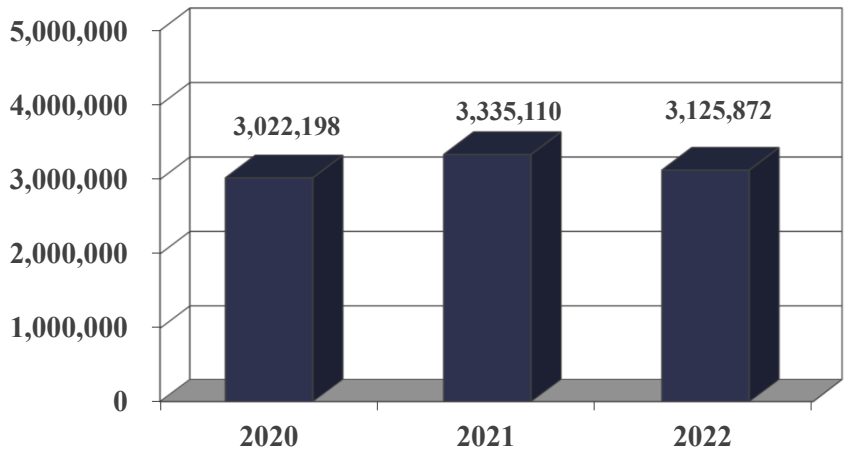

ISD NO. 2448 Martin County West
General Fund – Unassigned Fund Balance as a % of Expenditures

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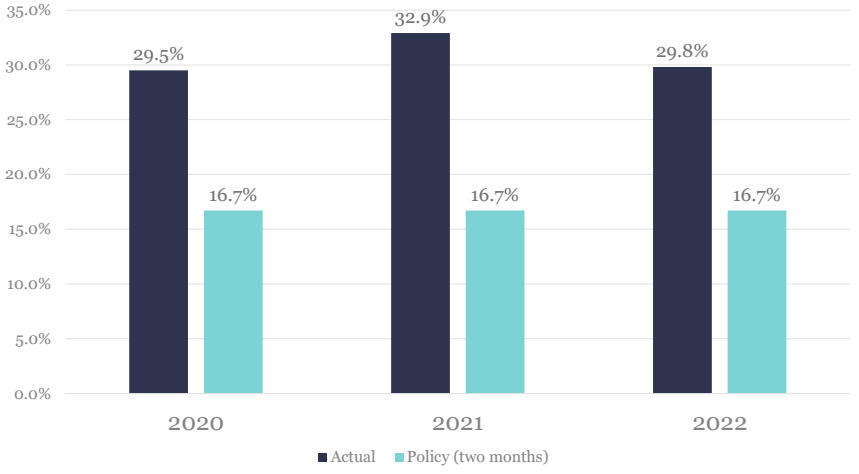
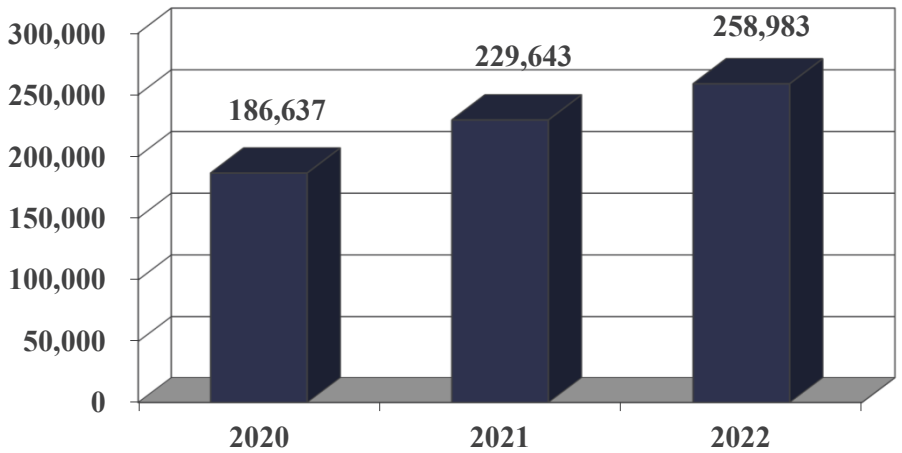


ISD NO. 2448 Martin County West
General Fund
Restricted Balance (Excluding Capital Related)



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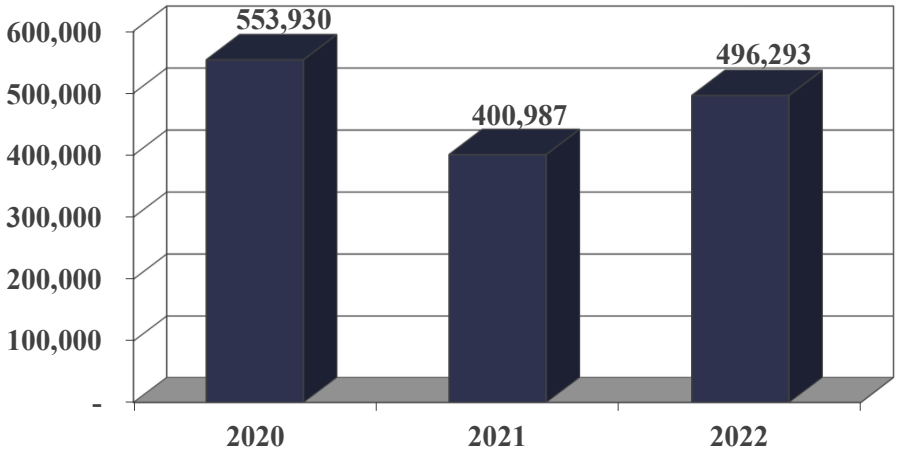
ISD NO. 2448 Martin County West
General Fund
Operating Capital Fund Balance



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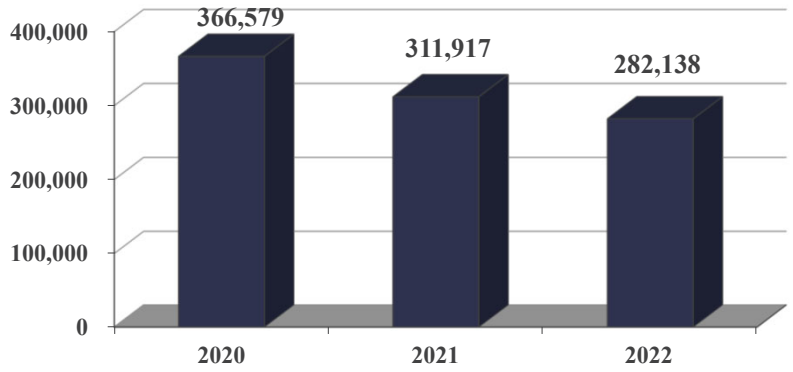
ISD NO. 2448 Martin County West
General Fund
Long Term Facilities Maintenance Fund Balance



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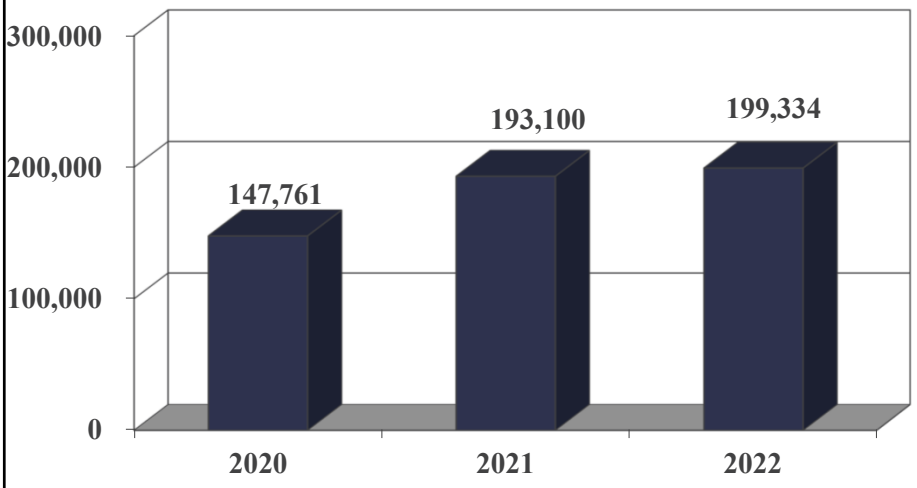
ISD NO. 2448 Martin County West
Food Service Fund Balance



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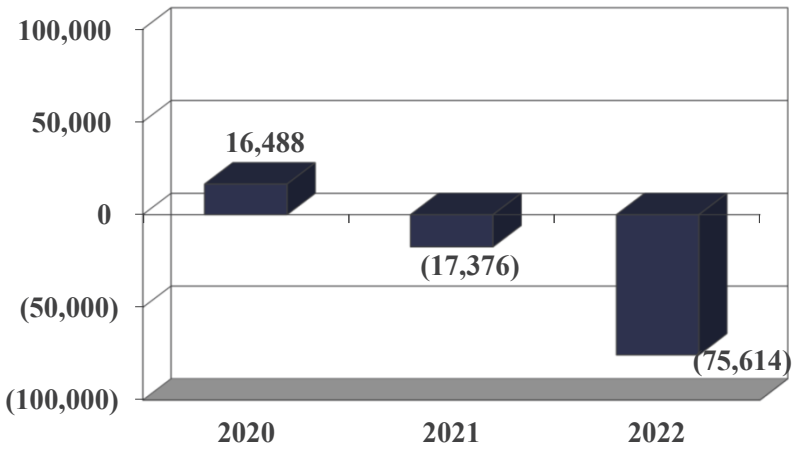
ISD NO. 2448 Martin County West
Community Service Fund Balance



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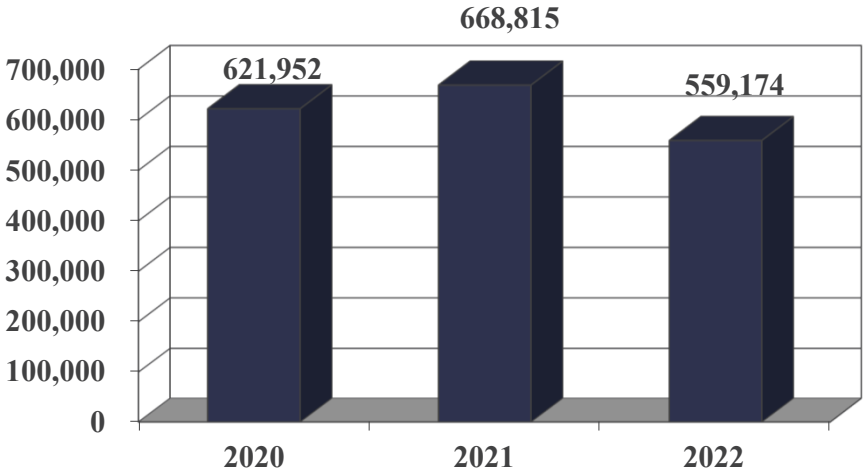
ISD NO. 2448 Martin County West
Debt Service Fund Balance



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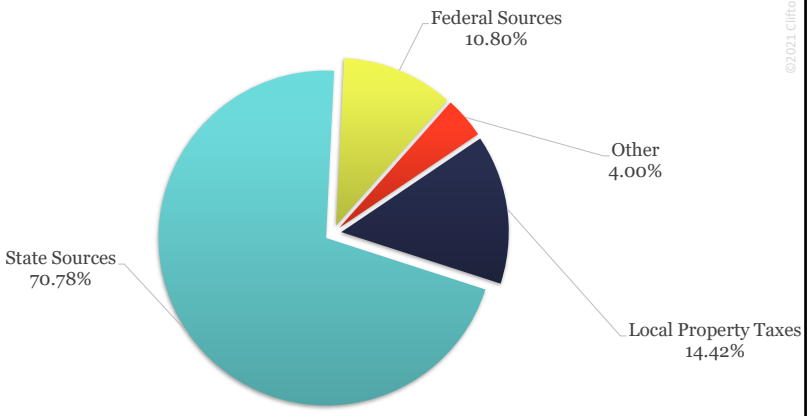
ISD NO. 2448 Martin County West
General Fund Revenue

$9,857,775



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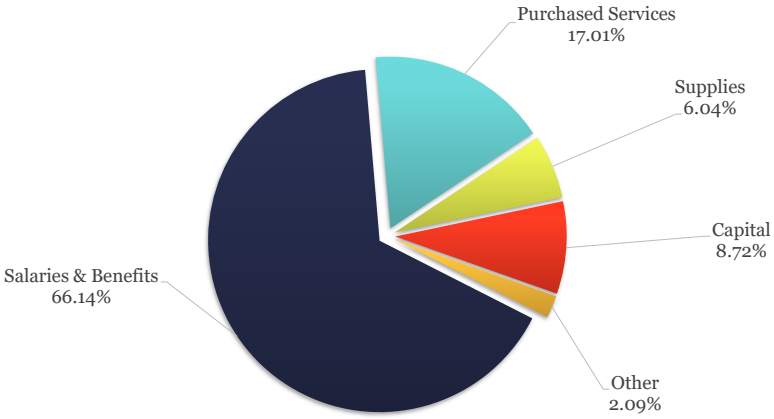
ISD NO. 2448 Martin County West
General Fund Expenditures by Object

$9,975,391



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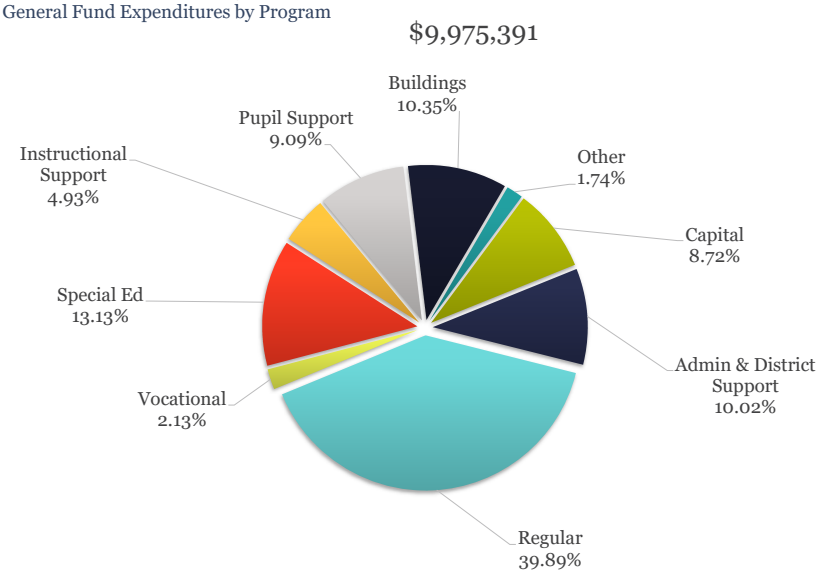
ISD NO. 2448 Martin County West
General Fund Expenditures by Program



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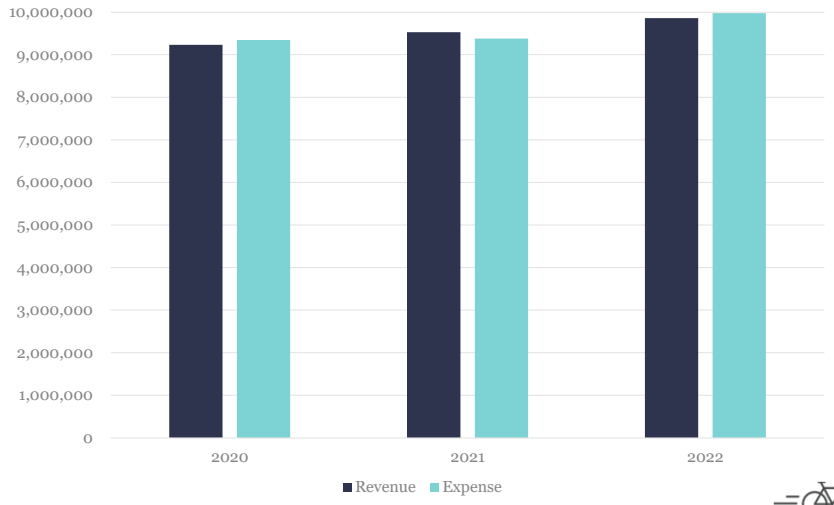
ISD NO. 2448 Martin County West
General Fund Revenues Vs Expenditures 2 Year Trend



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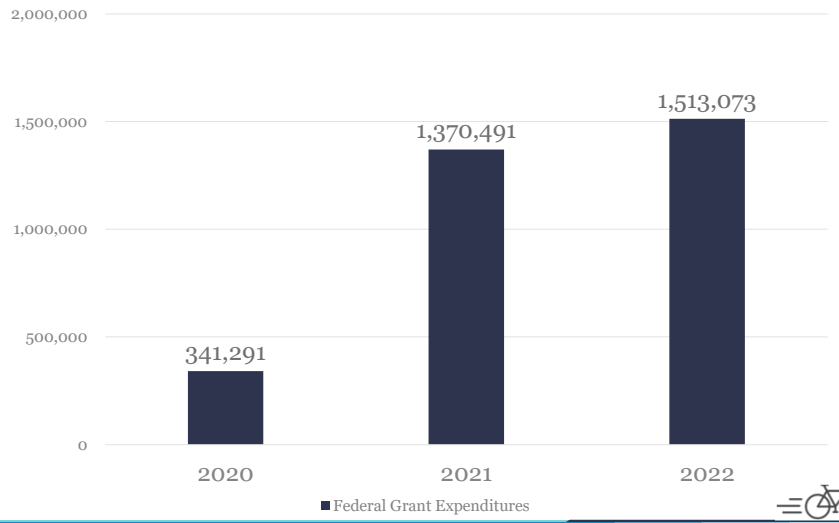
ISD NO. 2448 Martin County West
Federal Program Expenditures – All Funds



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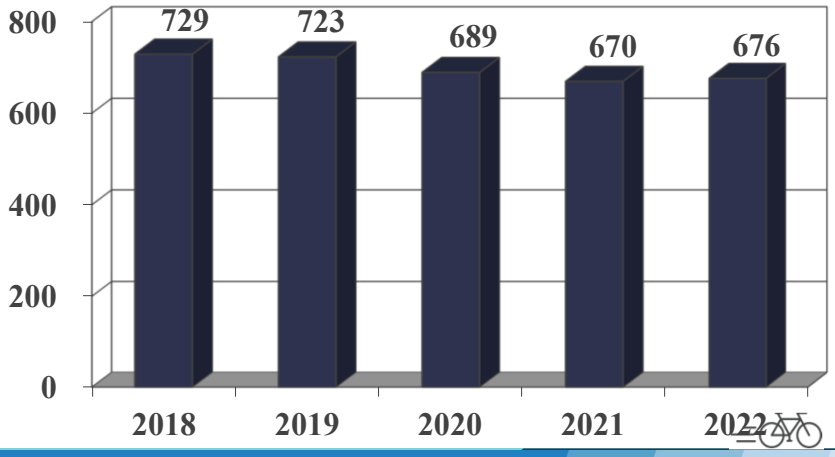
ISD NO. 2448 Martin County West
ADMs



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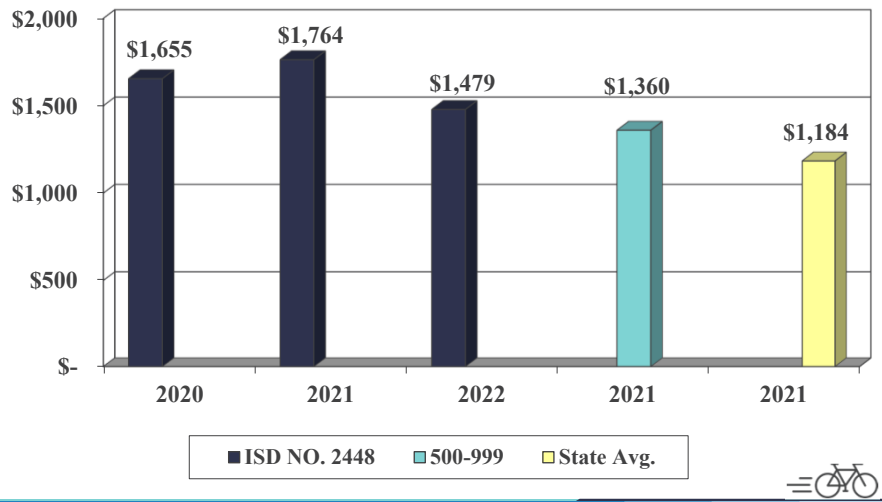
ISD NO. 2448 Martin County West
District & School Administration & Support Services



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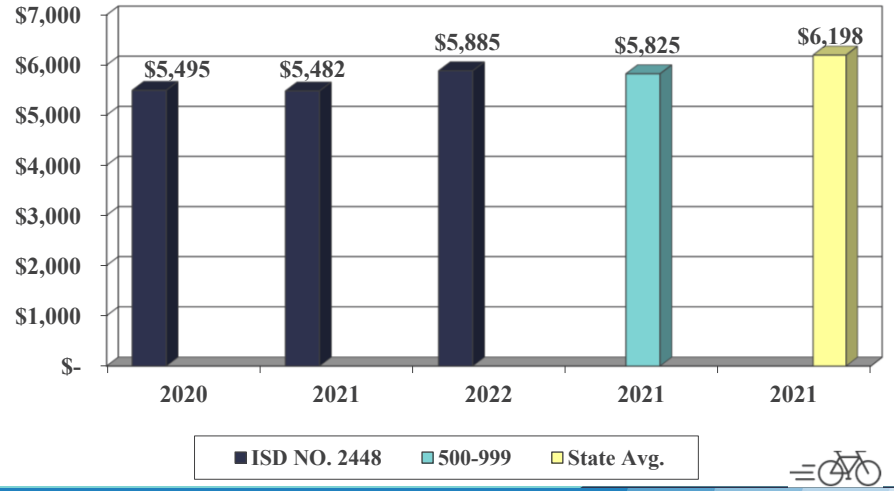
ISD NO. 2448 Martin County West
Regular Instruction – including Student Activities and Athletics



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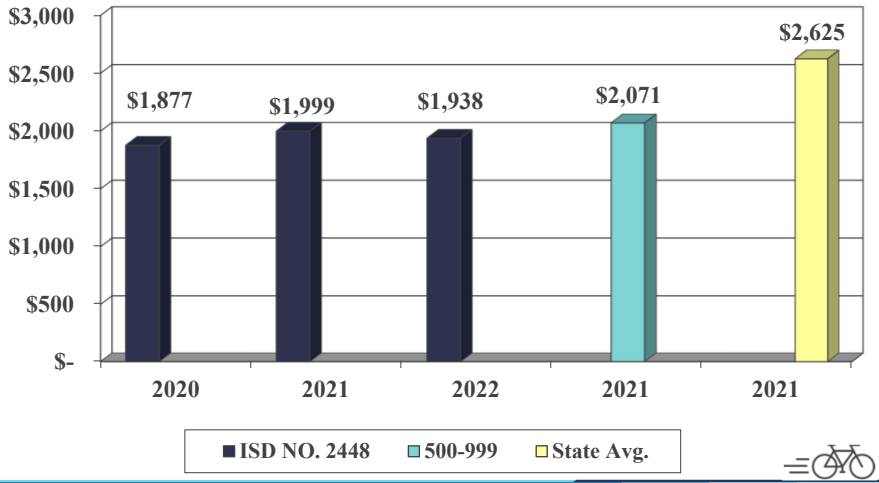
ISD NO. 2448 Martin County West
Special Education Instruction



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APPENDIX B

ACCOUNTING UPDATE

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. 99 – Omnibus

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

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

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements

GASB Statement No. 100 – Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

GASB Statement No. 101 – Compensated Absences

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave.