

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859**

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2015



CliftonLarsonAllen LLP
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October 22, 2015

Board of Education
Independent School District No. 2859
Glencoe, 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

Kimberley Hillberg, CPA
Principal

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
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JUNE 30, 2015**

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**EXECUTIVE AUDIT SUMMARY (EAS) FOR
INDEPENDENT SCHOOL DISTRICT NO. 2859
YEAR ENDED JUNE 30, 2015**

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, 2015.

Audit Opinion

The financial statements are fairly stated. We issued what is known as a "clean" audit report.

Internal Control Over Financial Reporting

Three material weaknesses in internal control were noted. These relate to oversight of the financial reporting process, adjusting journal entries, and control over account coding.

Yellow Book Compliance Finding

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

Single Audit

There were no compliance or internal control findings noted in our testing of Title I, Part A or Child Nutrition Cluster programs.

Minnesota Legal Compliance

There was one Minnesota Legal Compliance finding noted. The finding was related to UFARS disbursement coding.

Student Activity Funds

The student activity financial statements are prepared on the regulatory basis prescribed or permitted by the Minnesota Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements are fairly stated, except for such adjustments, if any, as might have been determined necessary had the cash collections been susceptible to satisfactory audit tests. This is what is known as an adverse opinion and is expected for audits of student activity funds.

There weren't any compliance findings noted for student activity funds.

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FORMAL REQUIRED COMMUNICATIONS

Board of Education
Independent School District No. 2859
Glencoe, 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. 2859 (the District) as of and for the year ended June 30, 2015, and have issued our report thereon dated October 22, 2015. 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 OMB Circular A-133, 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.

As described in Note 1, during the fiscal year ended June 30, 2015, the District changed accounting policies related to its accounting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Accordingly, this change in principle resulted in the restatement of beginning net position related to the recognition of the District's proportionate share of the Public Employees' Retirement Association of Minnesota General Employees' Retirement Fund's net pension liability as well as their portion of the Teacher's Retirement Association's Coordinated and Basic Plan net pension liability.

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. The most sensitive estimates affecting the financial statements were:

- Due from Minnesota Department of Education
- Due from Federal through the Minnesota Department of Education

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Accounting Estimates (Continued)

- Estimated useful lives of depreciable capital assets
- Estimated severance benefits payable
- 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 2014-15. 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 – 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 2015 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 through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2014-15. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the 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 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 certain assumptions made by the District as required by GASB 16. The District recorded a liability for accumulated sick leave convertible to severance pay for which it is probable the employees will be compensated. The method used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits and the potential use of sick leave prior to termination.

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 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. Management has corrected all such misstatements.

Corrected Misstatements

The following material misstatements detected as a result of audit procedures were corrected by management.

- Adjust state aid receivables and revenue
- Revenue and expenditure coding

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2015.

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 22, 2015.

With respect to the Uniform Financial Reporting and Accounting Standards Compliance Table (the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 22, 2015.

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 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

Austin, Minnesota
October 22, 2015

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2859 as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material Weaknesses

The following material weaknesses were identified and communicated in a prior period; remedial action has not yet been taken:

Oversight of the Financial Reporting Process

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP). The District does have a system of internal controls over the review of the financial statements. However, the District has not assumed full responsibility for a detailed review of the financial statements and for concluding the disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in entities of your size and is a result of management's cost benefit decision to rely on auditor expertise rather than incurring this internal resource cost. The design of internal controls over the financial reporting process affects the ability of the organization to report their financial data consistently with the assertions of management in the financial statements.

Material Audit Adjustments

As part of the audit, we proposed journal entries related to state aid revenue and receivables. The absence of a complete control procedures or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the District's internal control process. The District should continue to evaluate their internal procedures to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

Uniform Financial Accounting and Reporting System (UFARS) Account Coding Errors

The Uniform Financial Accounting and Reporting System (UFARS) is the state-mandated chart of accounts for coding all financial activity for Minnesota school districts. As part of the audit, we review account coding of various transactions to determine compliance with UFARS. Controls established by the District over disbursement coding are ineffective. The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the District's internal controls. Two invoices were coded incorrectly in accordance with UFARS. Additional, significant transactions with incorrect account coding were discovered during the performance of our financial statement audit. We recommend the District review UFARS coding on all disbursements.

Student Activity Receipts

The District has not established accounting procedures to provide assurance that all cash collections are recorded in the accounting records. The District records student activity revenues on the cash basis and does not have an accounting system and internal controls in place to ensure student activity revenues and receipts have been properly recorded. The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the District's internal controls. The accounting system and internal controls could be improved by (a) use of pre-numbered receipts with reconciliation of the numerical sequence; (b) reconciliation of merchandise purchased to items sold and items remaining at the end of the fundraiser; (c) calculation of expected sales compared to cash receipts; or various other procedures determined by management.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
October 22, 2015

APPENDIX A

FINANCIAL TRENDS OF YOUR DISTRICT

The following graphs reflect financial trends of Independent School District No. 2859. Information related to fund balances on pages 10 through 14 were obtained from current and prior year audit reports. Information from Independent School District No. 2859 has been included when appropriate for comparison purposes.

The graphs on pages 15 through 20 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 1,000 – 1,999). 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.

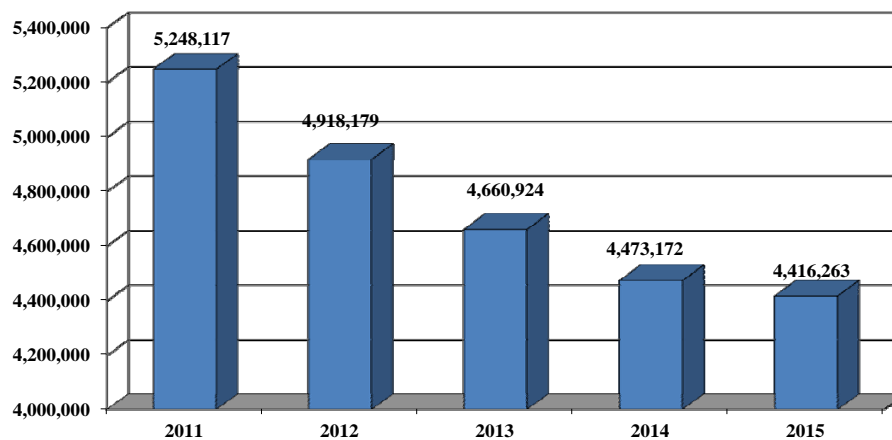
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**INDEPENDENT SCHOOL DISTRICT NO. 2859
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	Nonspendable & Unassigned	Non-Capital Related Restrictions	Capital Related Restrictions			Total	General Fund Total
			Operating Capital	Health & Safety	Deferred Maintenance		
Revenues	\$ 15,063,278	\$ 1,525,075	\$ 402,668	\$ 81,100	\$ 110,338	\$ 594,106	\$ 17,182,459
Expenditures and Operating transfers	15,114,381	1,447,032	452,045	62,527	194,482	709,054	17,270,467
Excess (Deficit) Revenues Over Expenditures	(51,103)	78,043	(49,377)	18,573	(84,144)	(114,948)	(88,008)
Fund Balance June 30, 2014	4,479,606	-	676,612	(64,505)	106,917	719,024	5,198,630
Fund Balance June 30, 2015	\$ 4,428,503	\$ 78,043	\$ 627,235	\$ (45,932)	\$ 22,773	\$ 604,076	\$ 5,110,622

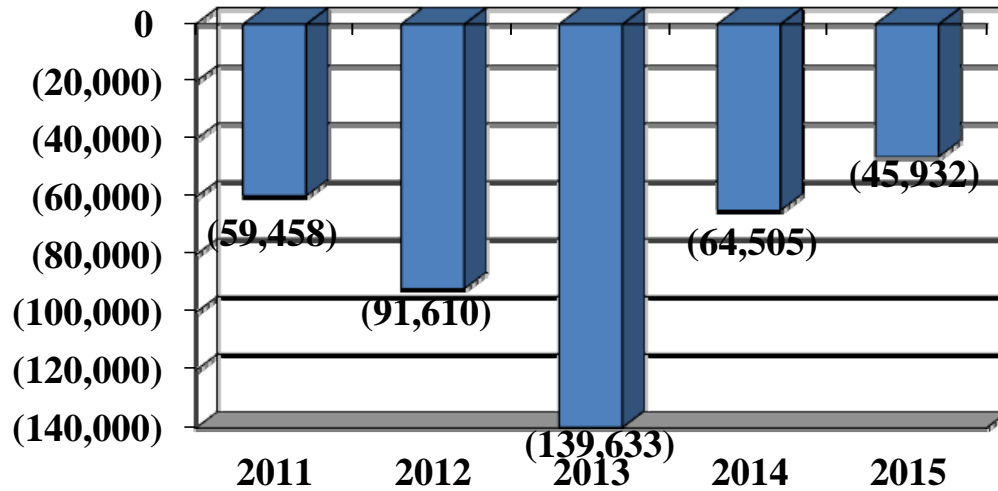


**ISD #2859 Glencoe - Silver Lake
General Fund
Unassigned Balance**



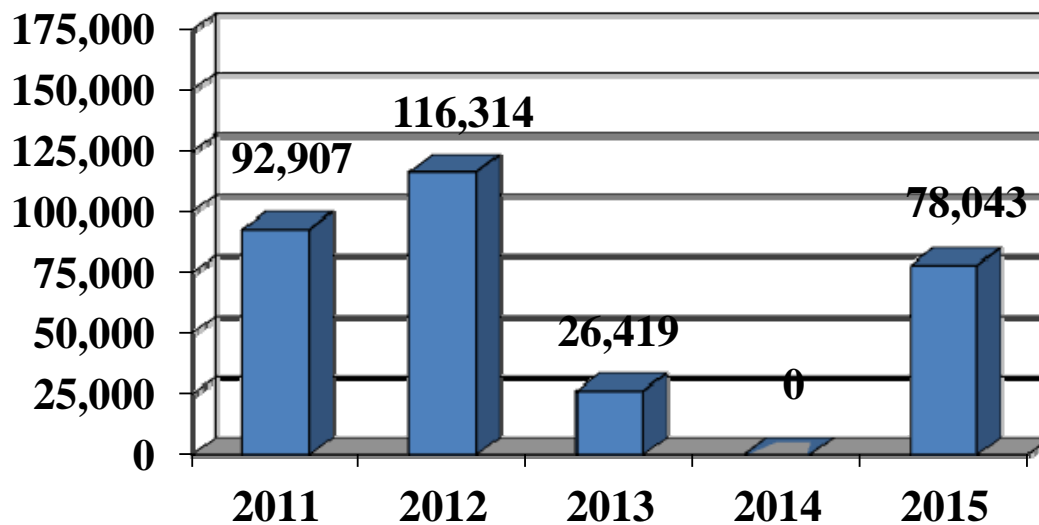
ISD #2859 Glencoe - Silver Lake
General Fund
Health and Safety Fund Balance

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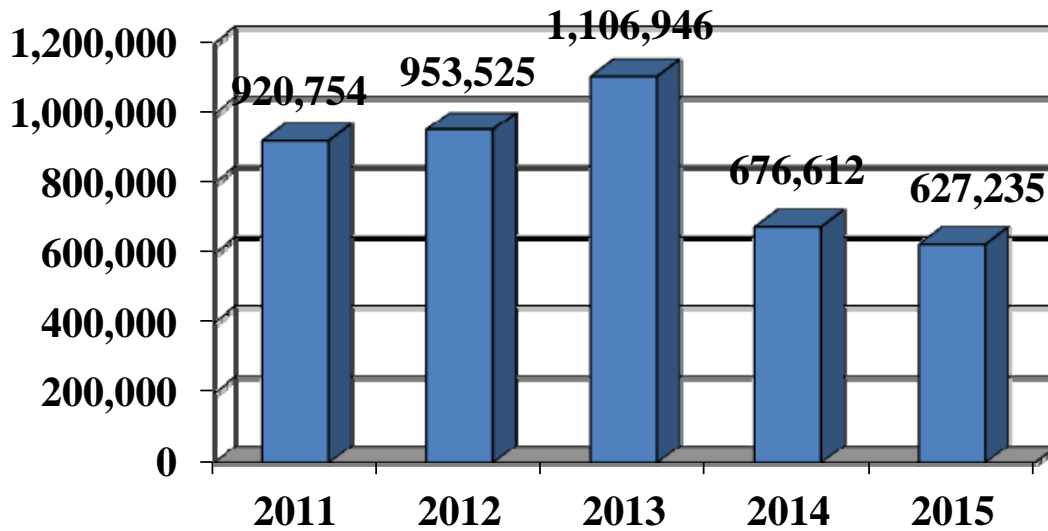
ISD #2859 Glencoe - Silver Lake
General Fund
Restricted Balance (Excluding Capital Related)

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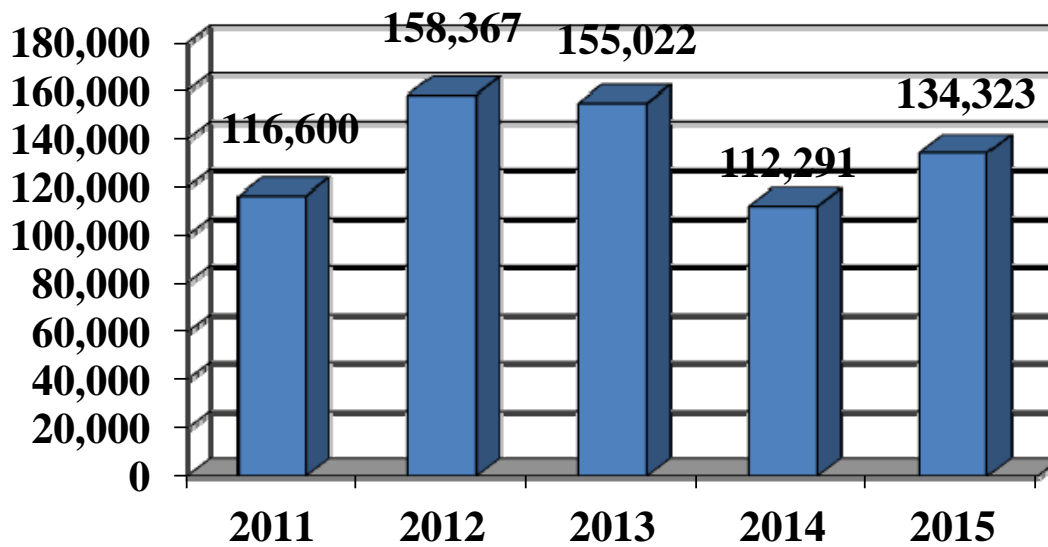
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General Fund
Operating Capital Fund Balance

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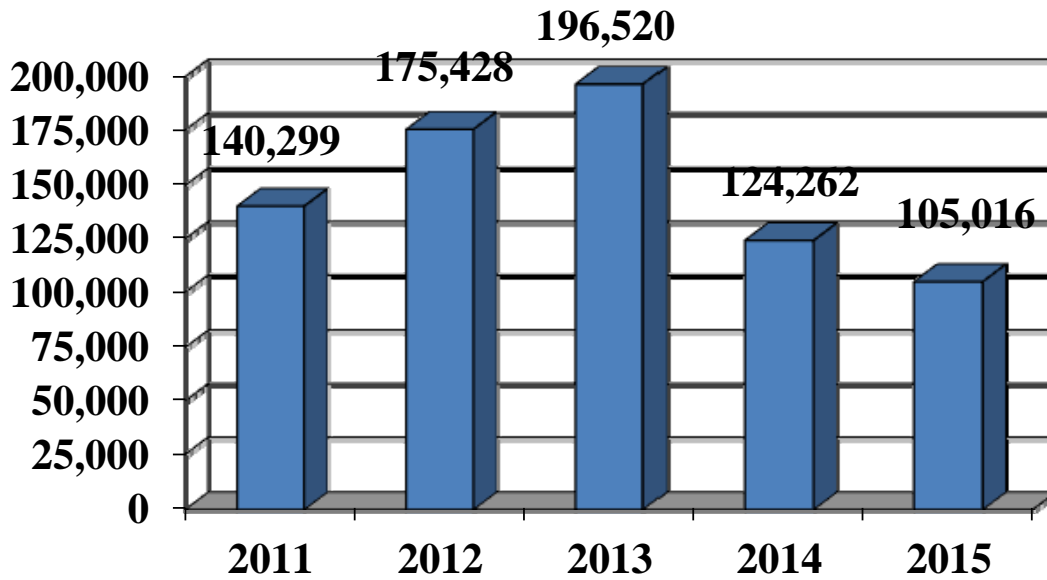
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Food Service Fund Balance

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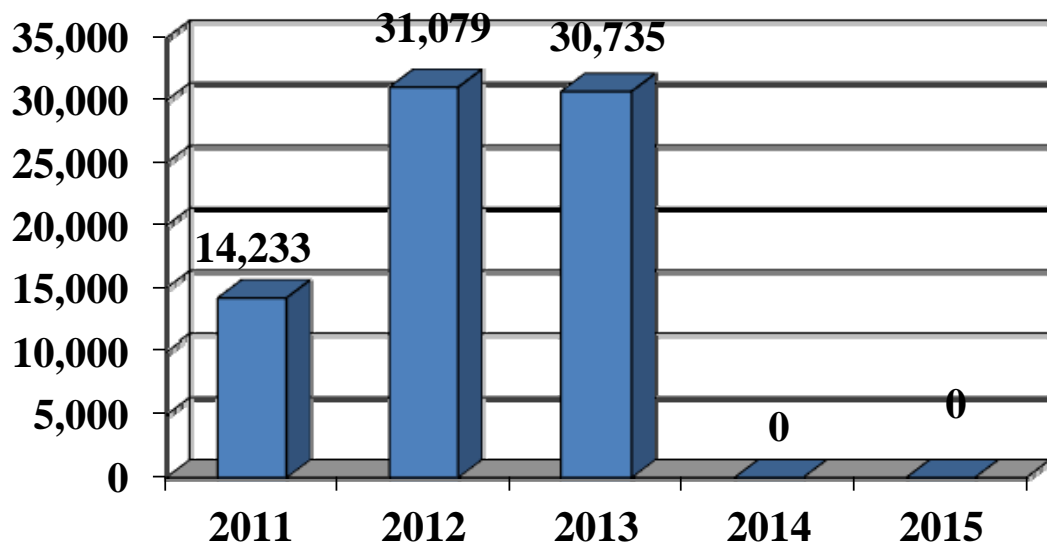
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Community Service Fund Balance

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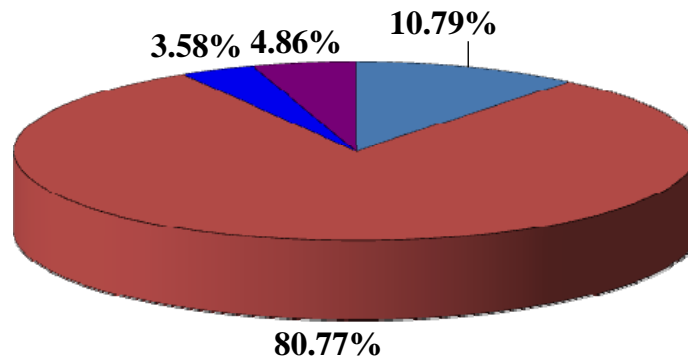
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Debt Service Fund Balance

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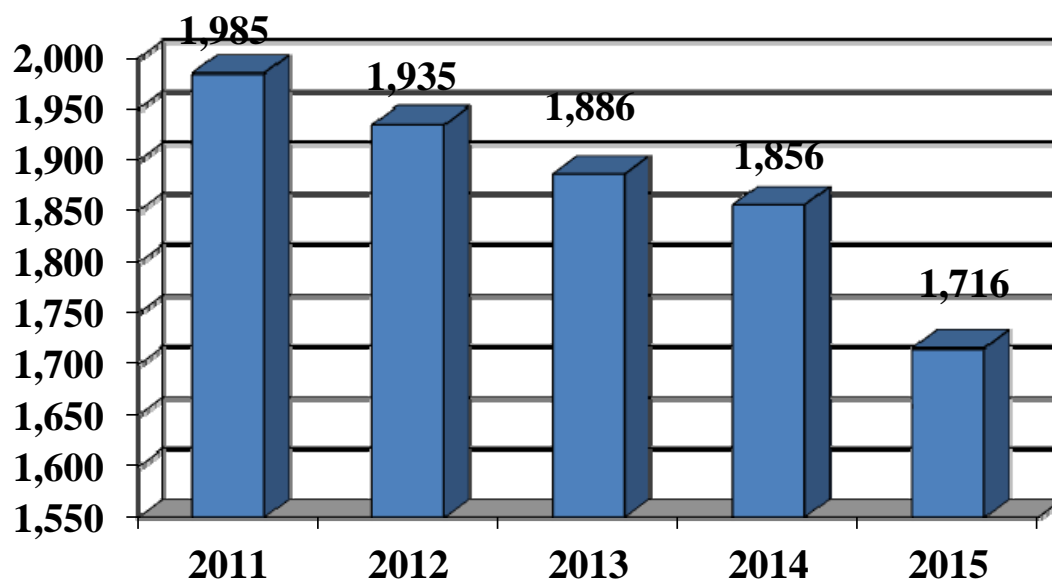
ISD #2859 Glencoe - Silver Lake
General Fund Revenue - 2015

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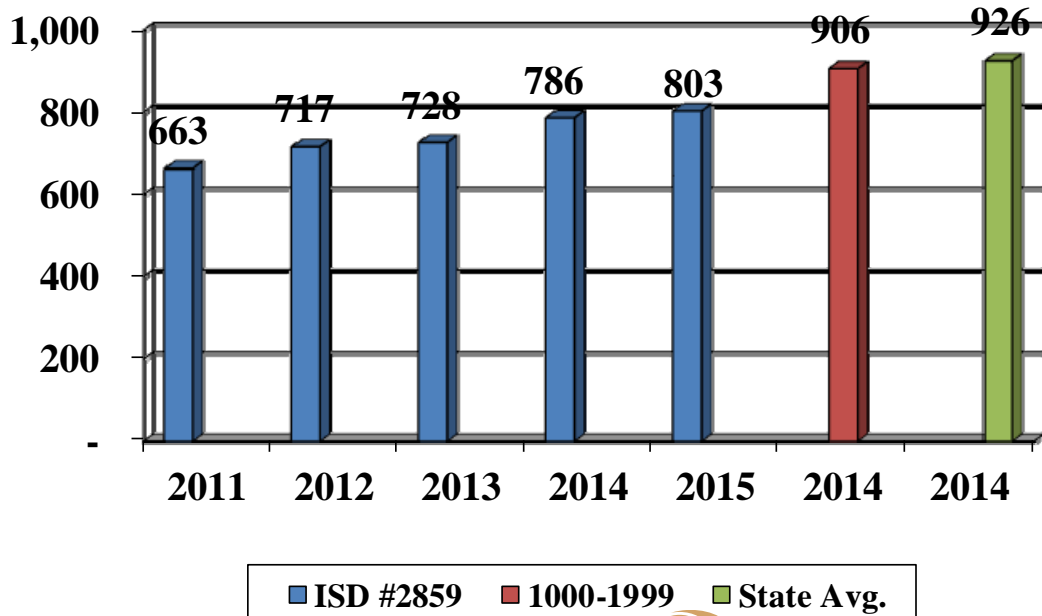
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WADM'S

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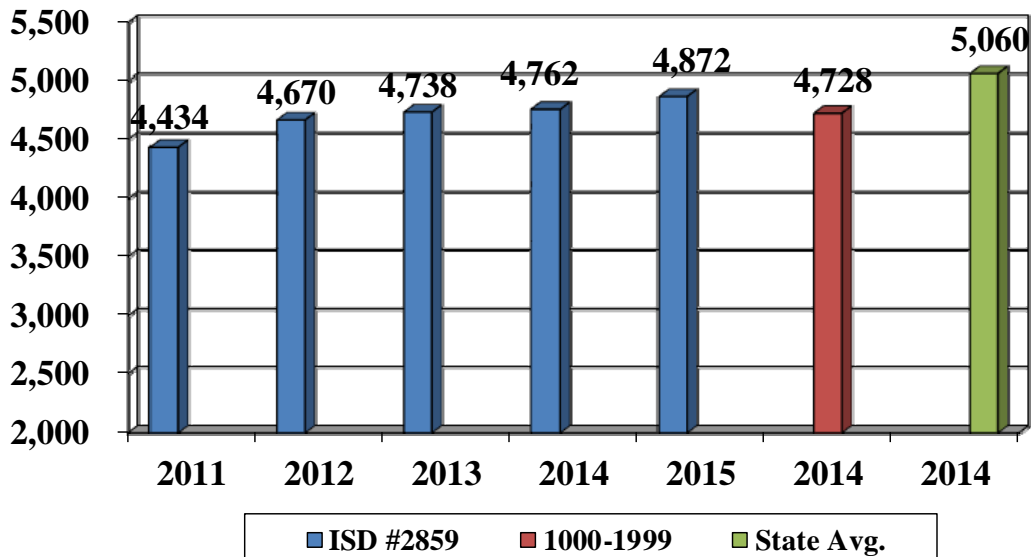
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District & School Administration

District and School Admin - all costs related to providing administration to the District (Board of Education, Superintendent, Principals, Line administrators, etc.)



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Regular Instruction

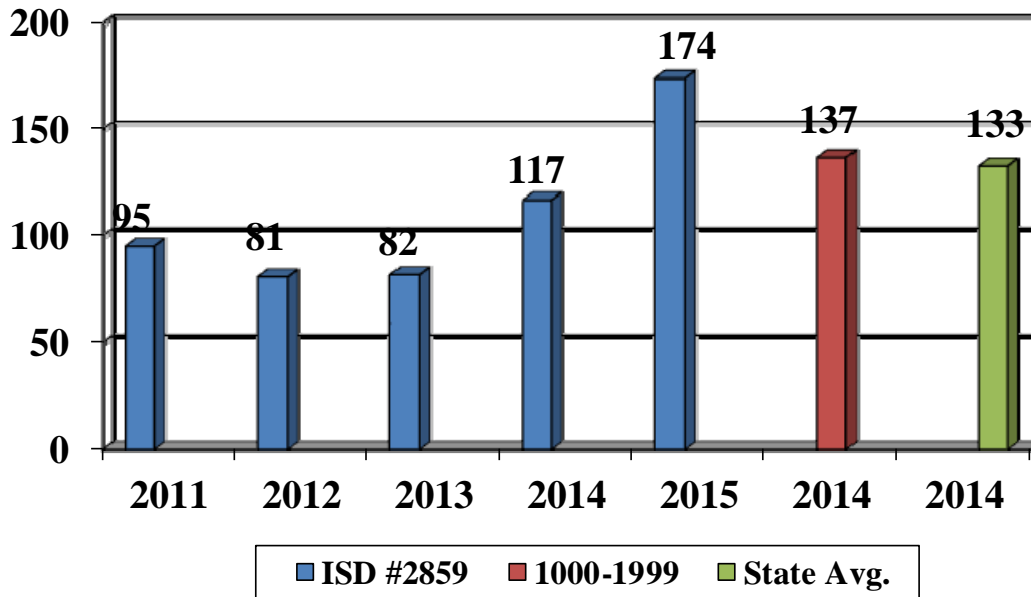
Regular Instruction - includes all activities dealing directly with the teaching of pupils including co-curricular and extra-curricular activities (excluding special ed, vocational and community education instruction)



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Vocational Instruction

Vocational Instruction - consists of costs related to career exploration, job-entry skills, job upgrading, and occupational training

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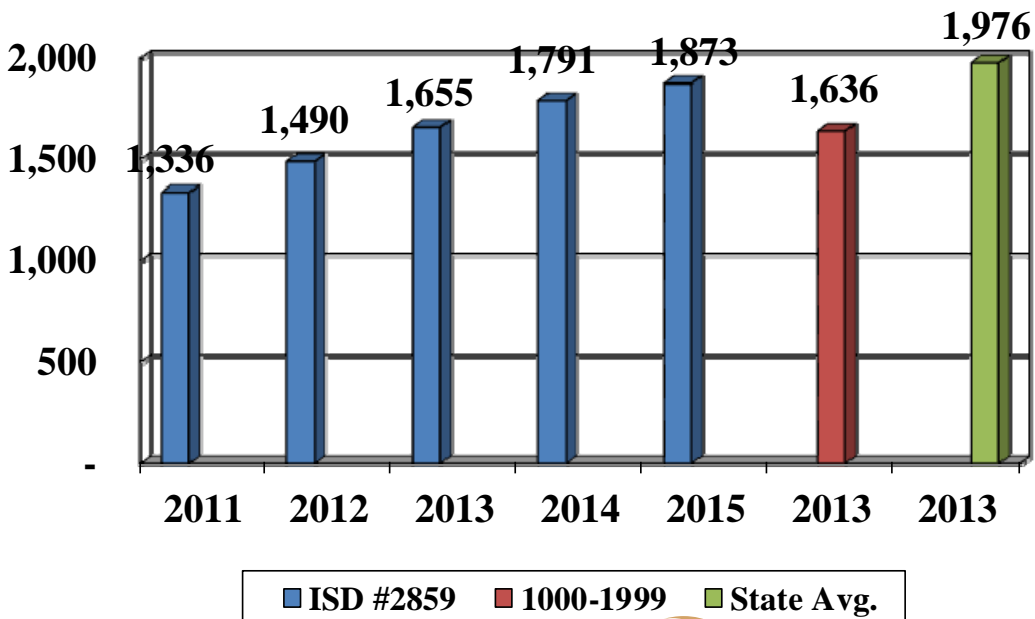


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Special Education Instruction

Special Education Instruction - consists of activities to provide learning experiences for pupils of any age with atypical characteristics or conditions

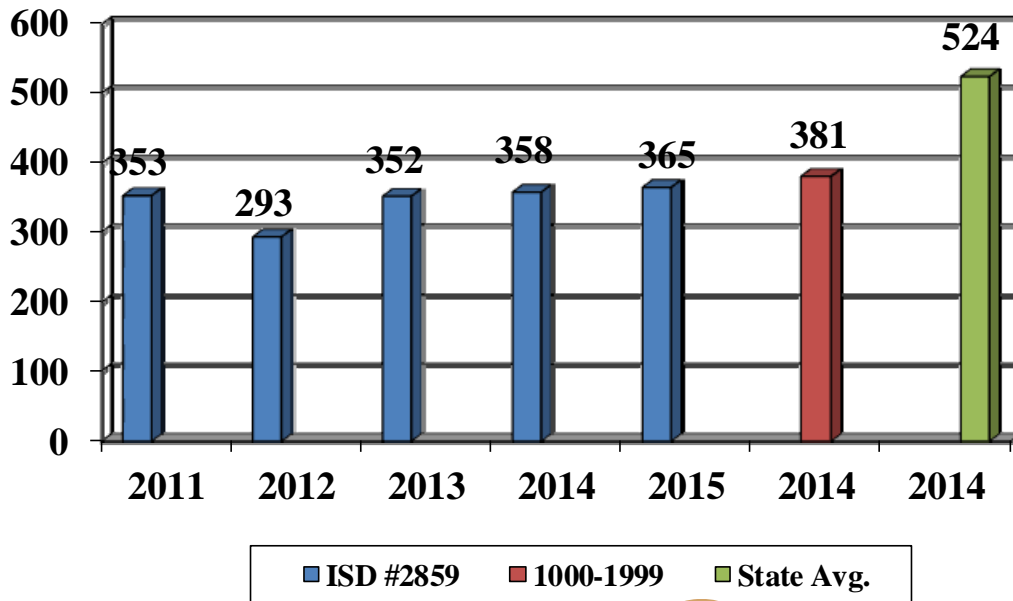
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Instructional Support Services

Instructional Support Services - activities to assist instructional staff with content & process of learning experiences for pupils in K-12 (curriculum, staff dev, etc.)

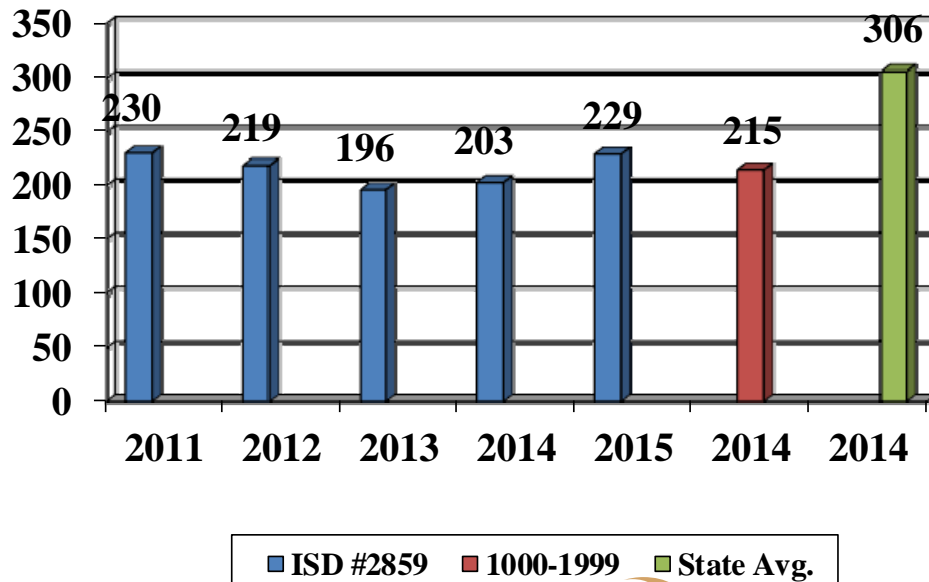


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Pupil Support Services

Pupil Support Services - services to pupils not classified as instructional (counseling & guidance, health services, psychological services, and social work) – excludes transportation

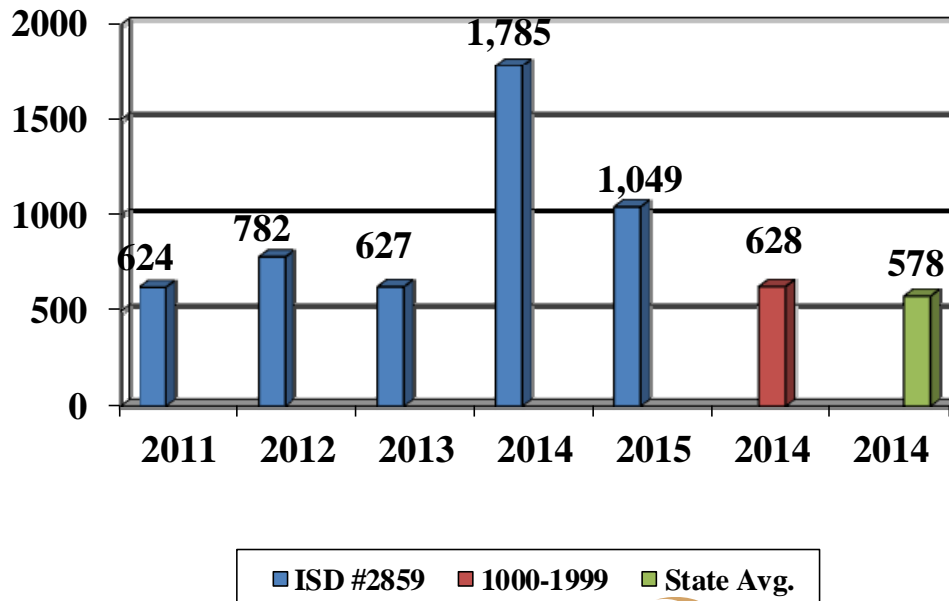


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Capital Expenditures

Capital Expenditures - all capital expenditures charged to operating funds

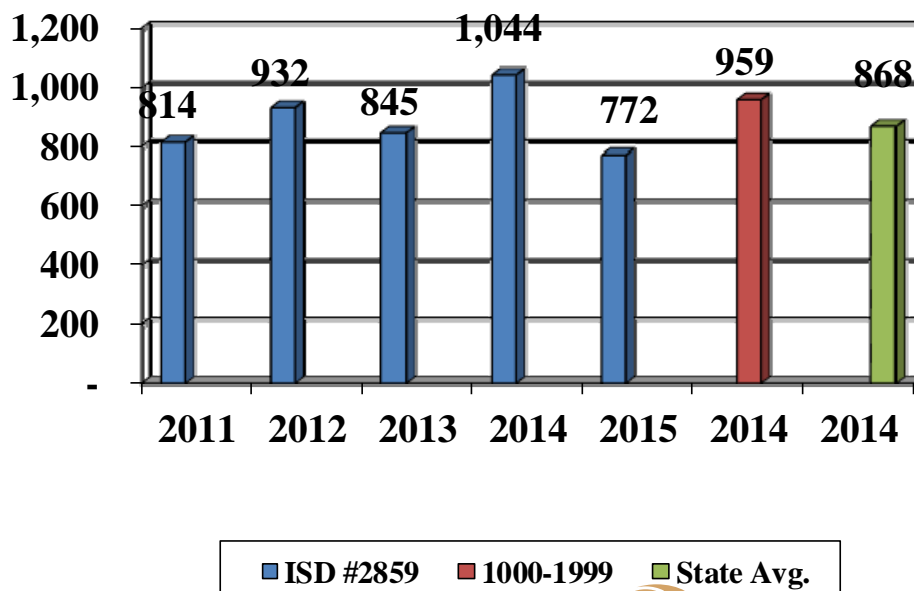


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Site, Buildings, & Equipment

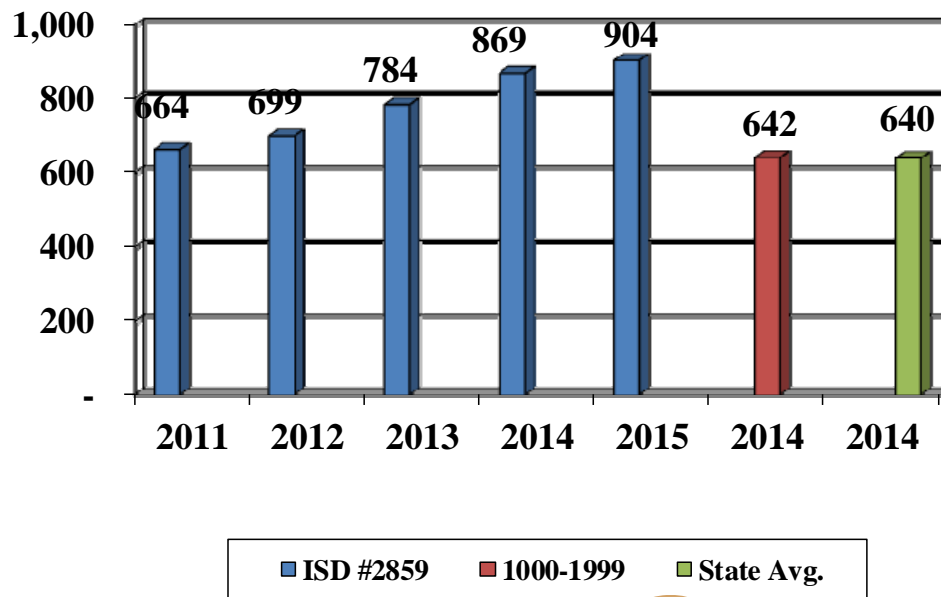
Operations and Maintenance - activities related to the operation, maintenance, repair and remodeling of all physical plant, facilities and grounds of the District



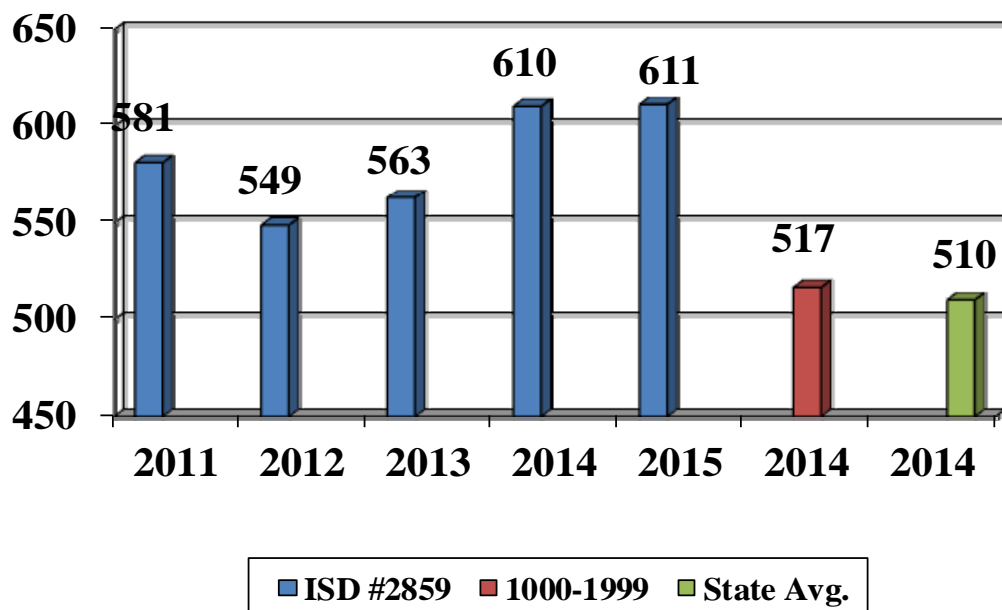
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Transportation



ISD #2859 Glencoe - Silver Lake Food Service - all costs of the Food Service Fund
Food Service



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Community Service

Community Service - all costs of the Community Service Fund

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