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Board of Education
Sheboygan Area School District
Sheboygan, Wisconsin

This Executive Audit Summary and Board Communications present information which we believe is important to you as members of the Board of Education. 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

Bryan Grunewald

Bryan Grunewald, CPA
Principal

SHEBOYGAN AREA SCHOOL DISTRICT

EXECUTIVE AUDIT SUMMARY AND BOARD COMMUNICATIONS

JUNE 30, 2020

SHEBOYGAN AREA SCHOOL DISTRICT
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JUNE 30, 2020

EXECUTIVE AUDIT SUMMARY FOR
SHEBOYGAN AREA SCHOOL DISTRICT
YEAR ENDED June 30, 2020

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

Audit Opinion

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

Internal Controls

Our report on internal control included the following deficiencies in internal controls over financial reporting:

Significant Deficiencies:

- Finding 2020-001 Preparation of Annual Financial Report

In addition, there were no deficiencies in internal control over compliance reported.

Compliance Findings

There were no separate compliance findings reported.

General Fund Balance

The District's General Fund experienced an increase in fund balance of $6,937,341 for the year ending June 30, 2020. The ending unassigned fund balance of $32,967,946 at June 30, 2020 represents 26.2% of expenditures included for the year and is an important aspect in the District's financial well-being since a healthy fund balance represents things such as cash flow and as a cushion against unanticipated expenditures, enrollment fluctuations, and state aid changes.

Budget

The District's General Fund revenues were $220,753, or 0.2%, less than the final budget, while total expenditures were $12,373,720, or 10.5% less than had been budgeted.

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FORMAL REQUIRED COMMUNICATIONS

Board of Education
Sheboygan Area School District
Sheboygan, Wisconsin

We have audited the financial statements of the governmental activities, the discretely presented component unit, the major fund and the aggregate remaining fund information of Sheboygan Area School District (the District) as of and for the year ended June 30, 2020, and have issued our report thereon dated December 11, 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*, Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines*, 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.B., the District changed accounting policies related to student activity funds, by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 84, *Fiduciary Activities*, in 2020. Accordingly, student activity funds previously reported within fiduciary funds are not reported within the general fund.

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:

- Useful lives of depreciable capital assets
- Other postemployment benefits
- Net pension (WRS) and net other postemployment benefits (LRLIF)
- Incurred, but not reported (IBNR) insurance reserves
- Fair value of investments
- Accumulated sick leave

Management's estimate of useful lives for depreciable assets is based upon analysis of the expected useful life of the capital assets. 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 other postemployment benefits payable and related deferred inflows and deferred outflows of resources is based on assumptions provided and used in the actuarial valuation including: inflation, salary increases, health-care cost trend rates, and mortality rates. The projected benefit payments also include assumptions about retiree and spouse participation rates, and estimates related to the 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 asset/liability and net other postemployment benefits liability and related deferred inflows and deferred outflows of resources is based on an actuarially determined calculation of the District's proportionate share of the net pension liability and net other postemployment benefits liability of cost-sharing multiple-employer pension and other postemployment benefit plans sponsored by the Wisconsin Retirement System in which the District participates.

Management's estimate of the incurred, but not reported (IBNR) insurance reserves are based on actuarial projections of the expected cost of the ultimate settlement and administration of claims.

Management's estimate of the fair value of investments is based on published market values.

Management's estimate of accumulated sick leave is based upon analysis of the employees sick leave balance.

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 determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following summarizes uncorrected misstatements of the financial statements:

- A multi year service plan was recorded as a liability and the entire amount was expensed during the year ended June 30, 2020. As a result, liabilities and expenditures were overstated by $108,119.

Corrected Misstatements

None of the misstatements detected as a result of audit procedures and corrected by management are material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 11, 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.

Board of Education
Sheboygan Area School District

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) and the schedule of expenditures of state awards (SESA) 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 and SESA to determine that the SEFA and SESA comply with the requirements of the Uniform Guidance and the *State Single Audit Guidelines*, the method of preparing them has not changed from the prior period or the reasons for such changes, and the SEFA and SESA are appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA and SESA 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 11, 2020.

With respect to 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.

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

CliftonLarsonAllen LLP

Sheboygan, Wisconsin
December 11, 2020

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INTERNAL CONTROL COMMUNICATIONS

Board of Education
Sheboygan Area School District
Sheboygan, Wisconsin

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the Sheboygan Area School District (the District) as of and for the year ended June 30, 2020, 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 a certain deficiency in internal control that we consider to be a significant deficiency.

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

Given the limitations described in the second paragraph, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Significant Deficiencies

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the entity's internal control to be a significant deficiency:

Board of Education
Sheboygan Area School District

The following significant deficiency was identified and communicated in a prior period:

- **<u>Preparation of Annual Financial Report</u>**
  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 (U.S. GAAP). Current District staff maintains accounting records which reflect the District's financial transactions; however, preparing the District's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. 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.

* * *

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

CliftonLarsonAllen LLP

Sheboygan, Wisconsin
December 11, 2020

APPENDIX A

FINANCIAL TRENDS OF YOUR DISTRICT

District Governmental Fund Balances

Presented below is a summary of the District's governmental fund balances on June 30, 2020. This information is provided for assisting management in assessing financial results for the current fiscal year and for indicating financial resources available at the start of the next budget year.

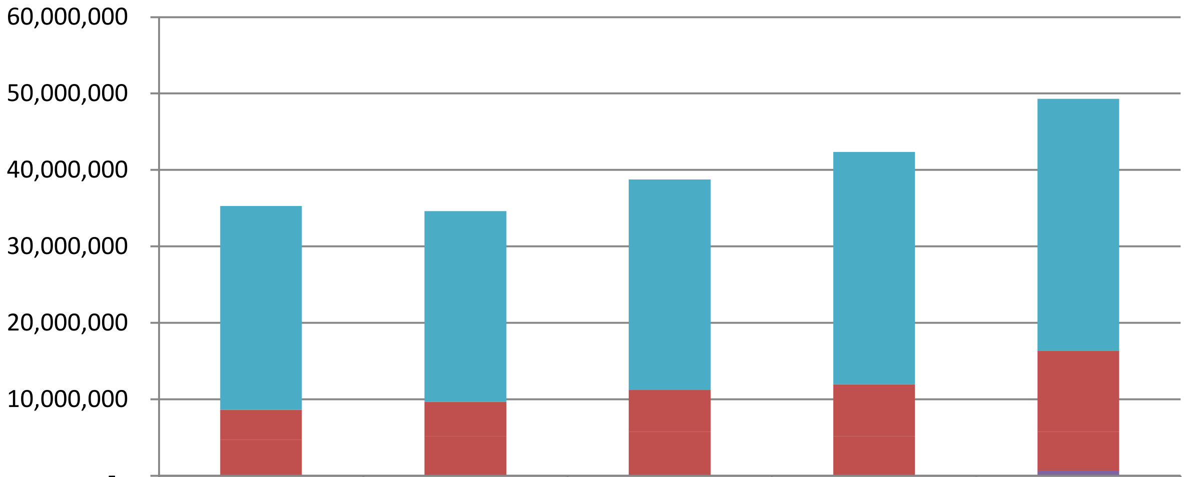
	June 30, 2020	June 30, 2019
Governmental Funds		
General Fund		
Nonspendable		
Inventories and Prepaid Items	$ 619,122	$ 58,808
Committed		
Fiber Optic Network	224,170	224,361
Self-insurance	4,923,381	4,884,605
Assigned		
Subsequent Year's Budget	2,653,505	2,694,421
Software Purchases	38,520	48,704
Athletic or PE Facility Upgrades	1,368,576	399,429
Land Purchase	1,000,000	250,000
Phone System Purchase	65,713	328,612
Building Projects	4,570,180	2,542,950
Classroom Furniture Replacement	23,909	50,000
House Construction Trailer	-	2,500
Textbook Purchases	100,000	100,000
Vehicle Purchases	4,750	-
Future Mental Health Initiatives	200,000	200,000
Staff Diversity Training	144,659	157,319
Staff Recruitment	99,231	10,000
Marketing Initiative	100,000	-
CAPP Class Teacher Credentialing	125,000	-
Elementary Coding Kits	30,000	-
Musical Instruments	27,916	-
Unassigned	32,967,946	30,397,528
Total General Fund	49,286,578	42,349,237
Special Revenue Funds		
Donations (Fund 21)	1,402,060	757,213
Food Service Programs	995,418	997,758
Community Service Programs	860,009	812,060
Total Special Revenue Funds	3,257,487	2,567,031
Debt Service Funds		
Restricted		
Retirement of Long-Term Debt	1,191,091	1,441,526
Capital Projects Fund		
Restricted		
Capital Projects	3,899,673	5,314,118
Long-Term Capital Projects (Fund 46)	2,517,052	1,505,019
Total Capital Projects Fund	6,416,725	6,819,137
Total Governmental Funds	$ 60,151,881	$ 53,176,931

The General Fund balance is segregated into nonspendable, committed, assigned and unassigned balances indicating the District's intention on how they intend to use the funds.

General Fund Balance Analysis

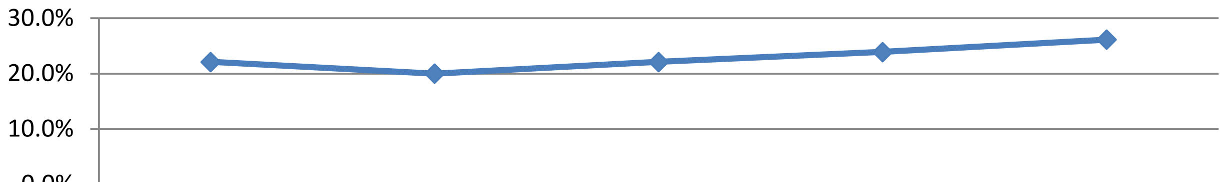
Presented below is a fund balance analysis of the General fund for fiscal years 2016-2020. This information is presented to assist District management in assessing fund balance levels at the end of current fiscal year and the trend over the past five years.

General Fund: Historical Fund Balance Comparison



	2016	2017	2018	2019	2020
Unassigned	26,663,938	24,936,513	27,523,920	30,397,528	32,967,946
Assigned	3,921,994	4,545,849	5,462,528	6,783,935	10,551,959
Committed	4,638,549	5,077,991	5,685,864	5,108,966	5,147,551
Nonspendable	73,700	55,627	69,244	58,808	619,122

Unassigned Fund Balance as a Percentage of Operating Expenditures Historical Comparison



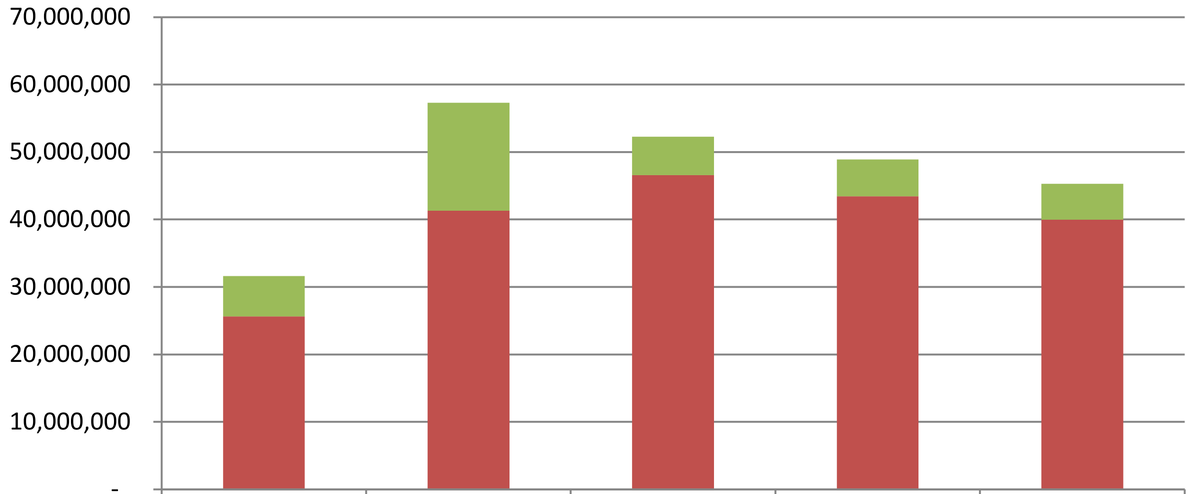
	2016	2017	2018	2019	2020
Percent	22.1%	20.0%	22.1%	23.9%	26.2%

As of June 30, 2020, the District's General Fund unassigned fund balance of $32,967,946 available for working capital and future expenditures. This balance represents approximately 26.2% of the General Fund expenditures.

General Obligation Debt Analysis

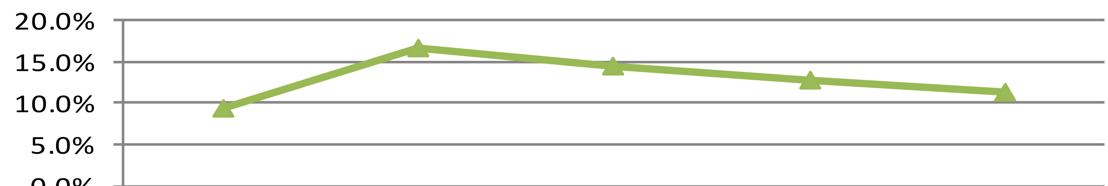
Presented below is additional information related to the District's general obligation debt balances. This information is presented to assist management in assessing outstanding general obligation debt balances and trends.

General Obligation Debt Outstanding Comparison



	2016	2017	2018	2019	2020
Notes	6,003,000	16,003,000	5,728,000	5,493,000	5,285,000
Bonds	25,630,000	41,295,000	46,555,000	43,425,000	39,985,000

General Obligation Debt Outstanding as a Percentage of Statutory Debt Limitation



	2016	2017	2018	2019	2020
Percent	9.3%	16.7%	14.6%	12.8%	11.3%

Additional information about the district's debt can be seen in Note 2.D of the annual financial report.

APPENDIX B

TECHNICAL UPDATE

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

GASB Statement No. 87 – Leases

GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. Specifically, this statement:

1. Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
2. Defines the "lease term" and clarifies when lessees and lessors should reassess the lease term due to lease modifications or terminations.
3. Defines and establishes recognition criteria for short-term leases.
4. Amends accounting and financial reporting requirements for contracts with multiple components, contract combinations, subleases, and leaseback transactions.

The statement is effective for Wisconsin school districts beginning in the 2021-2022 fiscal year. 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.

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 lease 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. The statement is effective for Wisconsin school districts beginning in the 2021-2022 fiscal year. Earlier application is encouraged.

GASB Statement No. 90 – Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61

GASB Statement No. 90 modifies previous guidance for reporting a government's majority equity interest in a legally separate organization by specifying that this type of interest should be reported as an investment if it meets the definition of an investment as prescribed in GASB 72. For all other holdings of a majority equity interest, a government would report the legally separate organization as a component unit, and the government or fund that holds the interest would report the asset using the equity method. The statement is effective for Wisconsin school districts beginning in the 2020-2021 fiscal year.

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. The statement is effective for Wisconsin school districts beginning in the 2022-2023 fiscal year.