



Management Letter

Independent School District No. 2144

Lindstrom, Minnesota

For the Year Ended
June 30, 2017

December 29, 2017

Management and Members of the Board of Education
Independent School District No. 2144
Lindstrom, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 2144 (the District), Lindstrom, Minnesota for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 13, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards and the Uniform Guidance

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, and noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "*U.S. Office of Management and Budget (OMB) Compliance Supplement*" applicable to each of its major Federal programs for the purpose of expressing an opinion on the District's compliance with those requirements and for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with the Uniform Guidance, *Government Auditing Standards* or Minnesota statutes.

Qualitative Aspects of Accounting Practices

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 not change accounting policies during 2017. 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 recorded in the financial statements in the proper period.

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. Significant estimates affecting the financial statements include depreciation on capital assets, receivables from the Minnesota Department of Education (MDE), and the liability for the District's pensions and other postemployment benefits (OPEB).

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- Management estimates a portion of the receivable from the Department of Education on student numbers and past expenditures.
- Management's estimate of its portion of the District's net pension liabilities related to its proportionate share of TRA and PERA pensions (assets) are based on the District's contributions in relation to all contributions to each plan as a whole. The overall net pension liability for TRA and PERA are based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, survivor life expectancy, and high-five salary.
- Management's estimate of its OPEB liability is based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, turnover, and healthcare cost trend rate.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material in the aggregate to the financial statements taken as a whole.

We also assisted in preparing a number of year end accounting entries. These were necessary to adjust the District's records at year end to correct ending balances. The District should establish detailed processes and procedures to reduce the total number of accounting entries made. The District will receive better and timelier information if the preparation of year end entries is completed internally.

Management Representations

We have requested certain representations from management that are included in the management representations letter dated December 29, 2017.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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 auditor's 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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention 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 retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions and the Schedule of Funding Progress), which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (combining and individual fund financial statements, schedules and table and the Schedule of Expenditures of Federal Awards), which accompany the financial statements but are not RSI. With respect to this supplementary information, 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, 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 were not engaged to report on the introductory section, which accompany the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the District's financial statements for the year ended June 30, 2017.

General Fund

A summary of current year budgeted and actual revenue and expenditures is as follows:

	Final Budgeted Amounts	Actual Amounts	Variance With Final Budget
Revenues	\$ 36,944,974	\$ 37,187,164	\$ 242,190
Expenditures	<u>36,635,472</u>	<u>38,084,394</u>	<u>(1,448,922)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	309,502	(897,230)	(1,206,732)
Other Financing Sources			
Insurance recovery	<u>-</u>	<u>48,976</u>	<u>48,976</u>
Net Change in Fund Balances	309,502	(848,254)	(1,157,756)
Fund Balances, July 1	<u>4,132,620</u>	<u>4,132,620</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 4,442,122</u>	<u>\$ 3,284,366</u>	<u>\$ (1,157,756)</u>

- Revenues from local property tax levies were \$734,977 more than expected.
- Within expenditures, the administration function had the most significant positive variance of \$38,158. This was mainly due to salaries coming in approximately \$13,430 less than budget. This was also reflected in fringe benefits function for a positive variance of approximately \$18,807.
- The largest negative expenditure variances were in instructional support services and special education instruction current expenditures, which were \$616,251 and \$328,161 more than anticipated, respectively. In instructional support services this was largely a result of salaries and purchased services in excess of budget by \$131,825 and \$155,126, respectively. In the special education function, salaries had a negative variance of \$500,578, and purchased services had a negative variance of \$78,631.

It is important for the District to maintain a fund balance at a level sufficient to fund working capital needs and to provide some cushion for unforeseen expenditures. A useful guide to an appropriate level is the percent of fund balance to expenditures. We recommend a fund balance of around 8.0 to 16.0 percent (one to two months) of planned expenditures. At year end, the total General fund balance is 8.6 percent of 2017 expenditures compared to 11.3 percent of 2016 expenditures.

Listed below is an analysis of unassigned fund balances for 2017 and 2016:

<u>Components of the General Fund</u>	2017		
	<u>Total Unassigned Fund Balances</u>	<u>Total Expenditures</u>	<u>Percent of Expenditures</u>
General	\$ (382,338)	\$ 33,972,848	(1.13) %
Pupil Transportation	477,911	2,096,464	22.80
Capital Expenditures	-	2,015,082	-
Total	<u>\$ 95,573</u>	<u>\$ 38,084,394</u>	0.25

<u>Components of the General Fund</u>	2016		
	<u>Total Unassigned Fund Balances</u>	<u>Total Expenditures</u>	<u>Percent of Expenditures</u>
General	\$ 259,882	\$ 33,053,415	0.79 %
Pupil Transportation	325,261	2,001,356	16.25
Capital Expenditures	(78,594)	1,544,786	(5.09)
Total	<u>\$ 506,549</u>	<u>\$ 36,599,557</u>	1.38

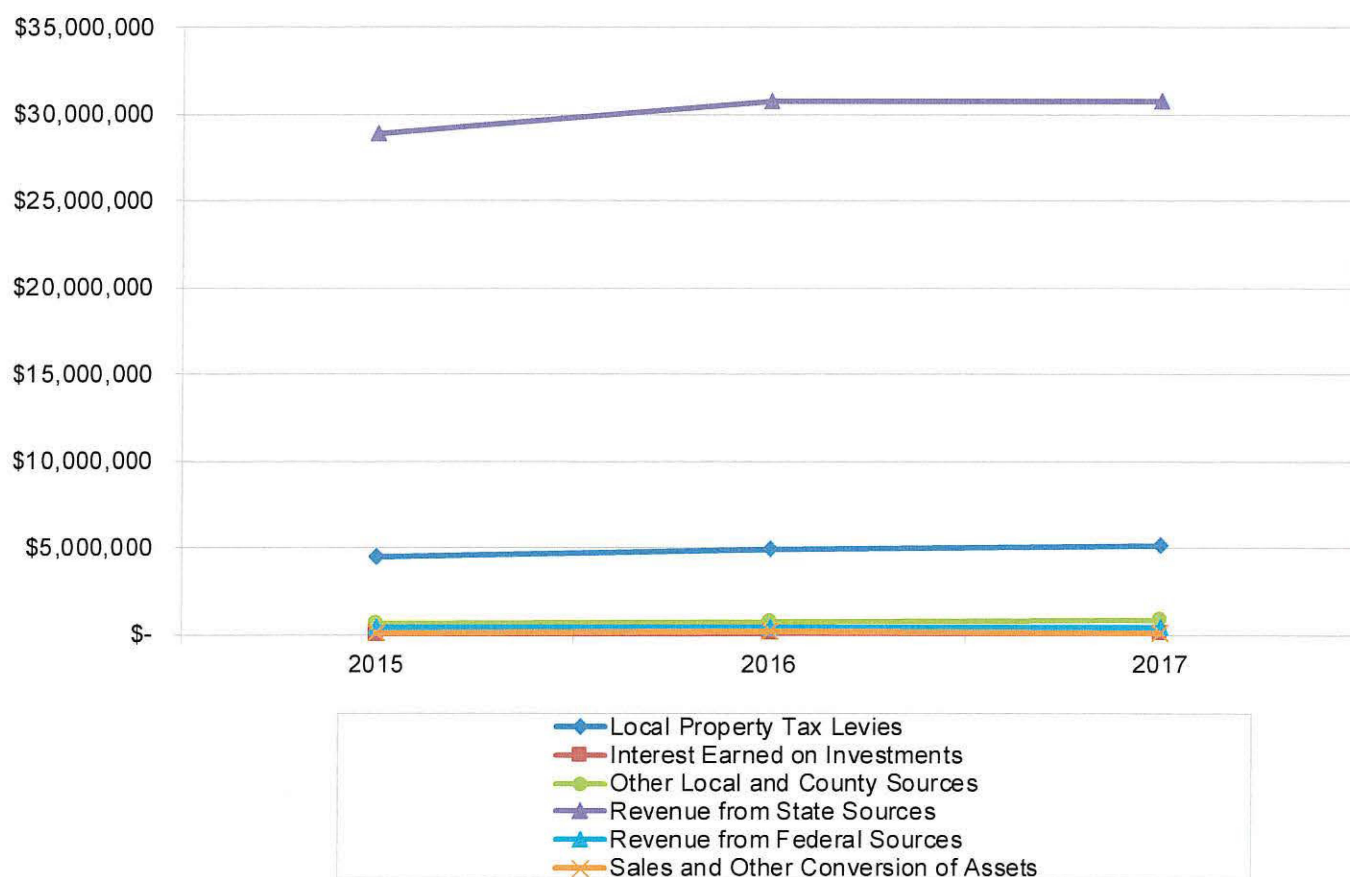
In 1997, the Department of Education required the District to consolidate the Transportation and Capital Expenditure funds into the General fund. The schedule of the components of the General fund is presented starting on page 81 for the Balance Sheet and Statement of Revenue, Expenditures and Changes in Fund Balances. These schedules show a breakdown of General fund activity in the General, Pupil Transportation and Capital Expenditure Funds.

A further breakdown of revenues by source for the past three years is as follows:

Revenue Source	2015	2016	2017	Per ADM
Local Property Tax Levies	\$ 4,478,544	\$ 4,871,056	\$ 5,113,870	\$ 1,533
Interest Earned on Investments	4,962	12,193	41,197	12
Other Local and County Sources	659,549	713,152	865,789	260
Revenue from State Sources	28,849,423	30,741,335	30,772,400	9,226
Revenue from Federal Sources	342,532	377,068	368,484	110
Sales and Other Conversion of Assets	37,019	213,555	74,400	22
Total Revenues	\$ 34,372,029	\$ 36,928,359	\$ 37,236,140	\$ 11,163

A graphical presentation of revenues for the past three years is as follows:

Revenues by Source

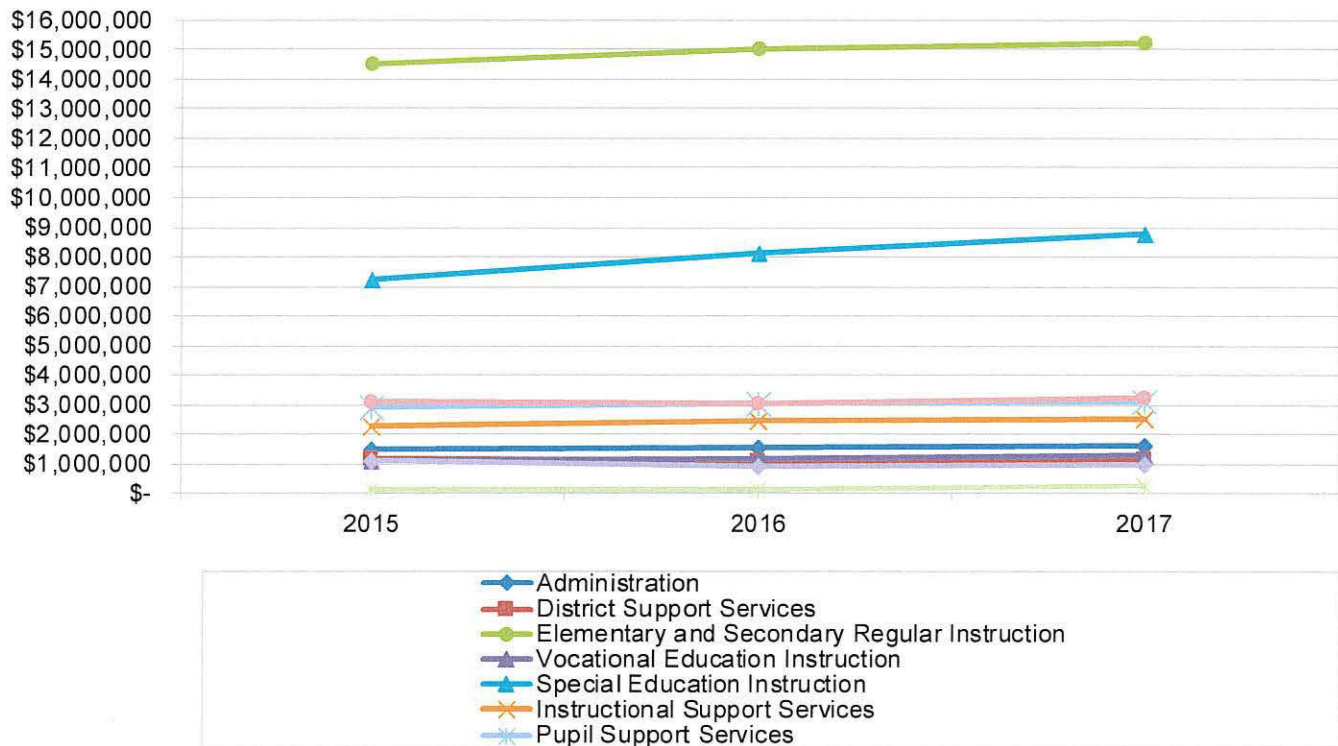


A further breakdown of expenditures by program for the past three years is as follows:

Program	2015	2016	2017	2017 Per ADM	2016 Per ADM
Administration	\$ 1,516,758	\$ 1,535,201	\$ 1,602,787	\$ 481	\$ 460
District Support Services	1,156,677	1,114,543	1,144,679	343	334
Elementary and Secondary Regular Instruction	14,486,381	15,017,597	15,205,565	4,559	4,501
Vocational Education Instruction	1,119,338	1,197,063	1,277,354	383	359
Special Education Instruction	7,251,746	8,154,730	8,796,588	2,637	2,444
Instructional Support Services	2,244,283	2,436,975	2,514,792	754	730
Pupil Support Services	2,893,569	3,055,506	3,112,145	933	916
Sites and Buildings	3,092,807	3,020,625	3,218,945	965	905
Debt Service	165,013	166,327	245,122	73	50
Capital Outlay	1,094,393	900,990	966,417	290	270
Other Financing Uses	28,424	-	-	-	-
Total Expenditures	\$ 35,049,389	\$ 36,599,557	\$ 38,084,394	\$ 11,418	\$ 10,969
Total Debt Service Expenditures	\$ 3,193,666	\$ 3,209,077	\$ 3,272,422	\$ 981	\$ 962

A graphical presentation of expenditures for the past three years is as follows:

Expenditures by Program



Special Revenue Funds

This group of funds includes Food Service and Community Service.

Food Service Fund

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 1,619,405	\$ 1,796,300	\$ 176,895
Expenditures	1,593,106	1,755,276	(162,170)
Net Change in Fund Balances	26,299	41,024	14,725
Fund Balances, July 1	-	-	-
Fund Balances, June 30	<u>\$ 26,299</u>	<u>\$ 41,024</u>	<u>\$ 14,725</u>

The most significant negative expenditure variance was in supplies and materials, coming in \$110,705 higher than budget. The purchased services in the food service fund were under budget by \$16,506.

Community Service Fund

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 1,740,250	\$ 1,917,824	\$ 177,574
Expenditures	1,638,914	1,812,625	(173,711)
Net Change in Fund Balances	101,336	105,199	3,863
Fund Balances, July 1	655,360	655,360	-
Fund Balances, June 30	<u>\$ 756,696</u>	<u>\$ 760,559</u>	<u>\$ 3,863</u>

The largest revenue variance was related to other local and county revenue which was \$140,898 over budget, primarily a result of increased participation in before and after school child care and increased summer participants. The most significant expenditure variances were related to salaries and employee benefits in community education and services which were approximately \$116,791 and \$38,449 over budget, respectively. The fund balance of \$760,559 represents 42.0 percent of the expenditures in 2017. This is approximately five months of expenditures based on 2017 levels.

The following table highlights the fund balance components of the Community Service fund.

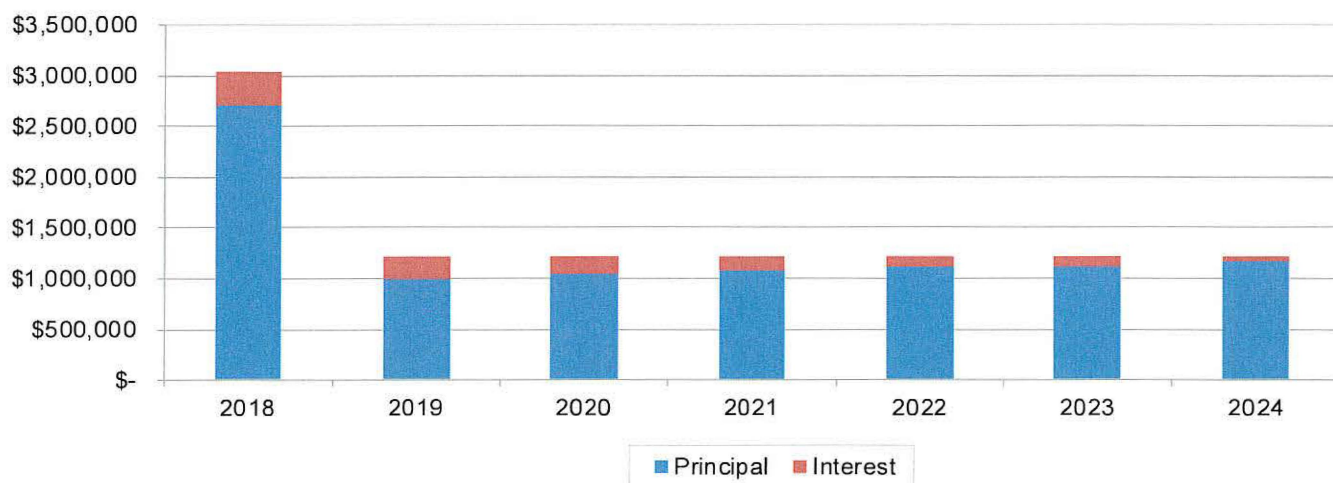
	2013	2014	2015	2016	2017
Nonspendable					
Prepaid items	\$ 2,079	\$ 11,022	\$ 10,481	\$ 8,549	\$ 11,864
Restricted for					
Community education	218,597	290,194	364,439	405,715	269,162
Early childhood family education	(15,538)	-	36,888	65,433	88,187
School readiness	7,097	-	-	10,965	50,801
Adult basic education	42	13	-	-	-
Community service					
Separation/retirement benefits	165,600	150,037	159,790	164,698	340,545
Unassigned	(11,249)	(11,116)	(13,599)	-	-
Total	<u>\$ 366,628</u>	<u>\$ 440,150</u>	<u>\$ 557,999</u>	<u>\$ 655,360</u>	<u>\$ 760,559</u>

Debt Service

The Debt Service fund has a fund balance of \$655,581 remaining at June 30, 2017. All resources of the debt fund are to be used for the following bond issues:

Title	Issue Date	Interest Rate	Original Issue	Final Maturity	Due Within One Year	Balance 06/30/17
G.O. School Building Bonds, Series 2007A	12/27/07	5.00 %	\$ 10,000,000	02/01/18	\$ 1,230,000	\$ 1,230,000
G.O. School Building Bonds, Series 2008A	01/09/08	4.00	4,200,000	02/01/18	520,000	520,000
G.O. School Building Bonds, Series 2013A	11/06/13	4.00	8,905,000	02/01/23	955,000	6,350,000
Total						<u>\$ 8,100,000</u>
Total Remaining Interest Payments						<u>\$ 1,001,100</u>

The graph below represents the future principal and interest payments through fiscal year 2023. The debt payments on the District's outstanding debt are required to be funded primarily by property taxes. We recommend management pay particular attention to annual tax levies listed in each bond issue book to ensure proper funding of debt service.



Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future District financial statements: ⁽¹⁾

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension*

Summary

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

Effective Date

This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.
- Explanations of how and why the OPEB liability changed from year to year will improve transparency.

Future Accounting Standard Changes (Continued)

- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.
- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return.
- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.
- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms.
- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

GASB Statement No. 81 - Irrevocable Split-Interest Agreements

Summary

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts - or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements - in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Effective Date

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

This Statement enhances the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission.

Future Accounting Standard Changes (Continued)

GASB Statement No. 83 - *Certain Asset Retirement Obligations*

Summary

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Future Accounting Standard Changes (Continued)

How the Changes in This Statement Will Improve Financial Reporting

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

GASB Statement No. 84 - *Fiduciary Activities*

Summary

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

Future Accounting Standard Changes (Continued)

GASB Statement No. 85 - Omnibus 2017

Summary

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.

GASB Statement No. 86 - Certain Debt Extinguishment Issues

Summary

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Future Accounting Standard Changes (Continued)

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

How the Changes in This Statement Will Improve Accounting and Financial Reporting

The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance.

GASB Statement No. 87 - Leases

Summary

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

How the Changes in This Statement Will Improve Accounting and Financial Reporting

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

⁽¹⁾ *Note.* From GASB Pronouncements Summaries. Copyright 2017 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

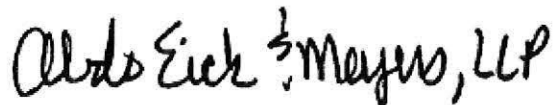
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Restriction on Use

This communication is intended solely for the information and use of the Board of Education, management, federal awarding agencies and the Minnesota Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

A handwritten signature in black ink that reads "Aldo Eick & Meyers, LLP". The signature is written in a cursive, flowing style.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
December 29, 2017