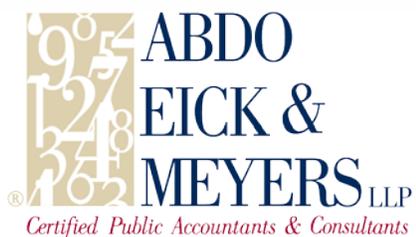


Management Letter

Minnesota New Country School School No. 4007

Henderson, Minnesota

For the Year Ended
June 30, 2017



People
+ Process[®]
Going
Beyond the
Numbers

Management and Members of the School Board
Minnesota New Country School
Henderson, Minnesota

We have audited the financial statements of the governmental activities and each major fund of the Minnesota New Country School, Henderson, Minnesota (the School) for the year ended June 30, 2017, and have issued our report thereon dated October 5, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards 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 August 24, 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*

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.

Also, 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. We are responsible for communicating significant matters related to 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, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described on the following page as item 2017-001, which we consider to be a significant deficiency.

2017-001 Preparation of financial statements

Condition: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with cities of your size.

Effect: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken provide you with the completed financial statements.

The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors.

Recommendation Under these circumstances, the most effective controls lie in management's knowledge of the School's financial operations. Regarding the specific situations listed above, we would offer the following specific recommendation:

- Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers.
- Agree your SMART receipt and disbursement information to the numbers reported in the financial statements plus any applicable accruals.
- It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations.

Management response:

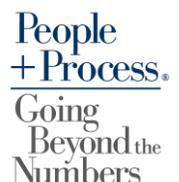
For now, the School accepts the degree of risk associated with this condition, but is prepared to engage the services of a qualified party in the future if its own staff needs outside help in this matter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *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 School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the governmental unit 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 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 School's financial statements include:

- Management's estimate of capital asset basis is based on estimated historical cost of the capital assets and depreciation is based on the estimated useful lives of capital assets.
- Management's estimate of amounts due from the Minnesota Department of Education is based on pupil unit and other information provided by the MDE.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is 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.

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. We did not propose any journal entries that we consider to be audit entries or corrections of management decisions.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 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 School’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 each year prior to retention as the School’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

With respect to the 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 accompanies 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 School'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:

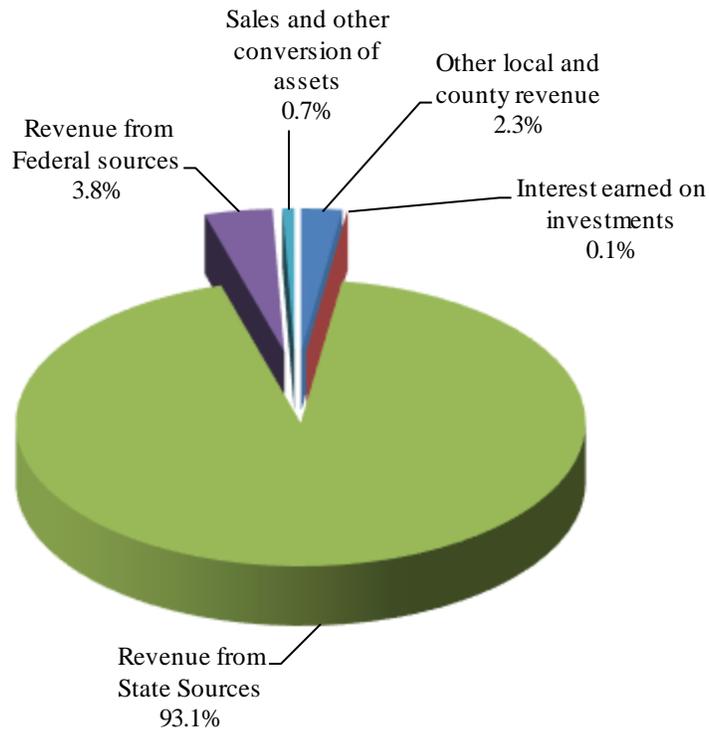
	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues	\$ 2,608,734	\$ 2,700,169	\$ 91,435
Expenditures	<u>2,615,674</u>	<u>2,639,321</u>	<u>(23,647)</u>
Excess (deficiency) of revenues over (under) expenditures	(6,940)	60,848	67,788
Other financing sources (uses) Transfers out	<u>-</u>	<u>(11,501)</u>	<u>(11,501)</u>
Net change in fund balances	(6,940)	49,347	56,287
Fund balances, July 1	<u>722,280</u>	<u>722,280</u>	<u>-</u>
Fund balances, June 30	<u>\$ 715,340</u>	<u>\$ 771,627</u>	<u>\$ 56,287</u>

- Revenues were over budget for fiscal year 2017 by \$91,435. This is primarily due to revenue from State sources being over budget by \$75,063 due to an increase in reimbursable special education costs.
- Expenditures were over budget for fiscal year 2017 by \$23,647. The largest favorable budget variance of \$139,087 relates to instructional support purchased services due to the coding of staffing costs which was offset by an unfavorable budget variance of \$92,594 in elementary and secondary regular instruction purchased services. Further, special education costs increased \$220,415 and incurred an unfavorable budget variance of \$58,210.

A further breakdown of revenue by source for the past two years in the General and Food Service funds are as follows:

	Amount		Per ADM	
	2016	2017	2016	2017
Other local and county revenue	\$ 94,130	\$ 63,118	\$ 457	\$ 294
Interest earned on investments	56,297	210	273	1
Revenue from State sources	2,236,827	2,532,284	10,858	11,778
Revenue from Federal sources	97,871	104,557	475	486
Sales and other conversion of assets	1,191	18,040	6	84
Total revenues	\$ 2,486,316	\$ 2,718,209	\$ 12,069	\$ 12,643

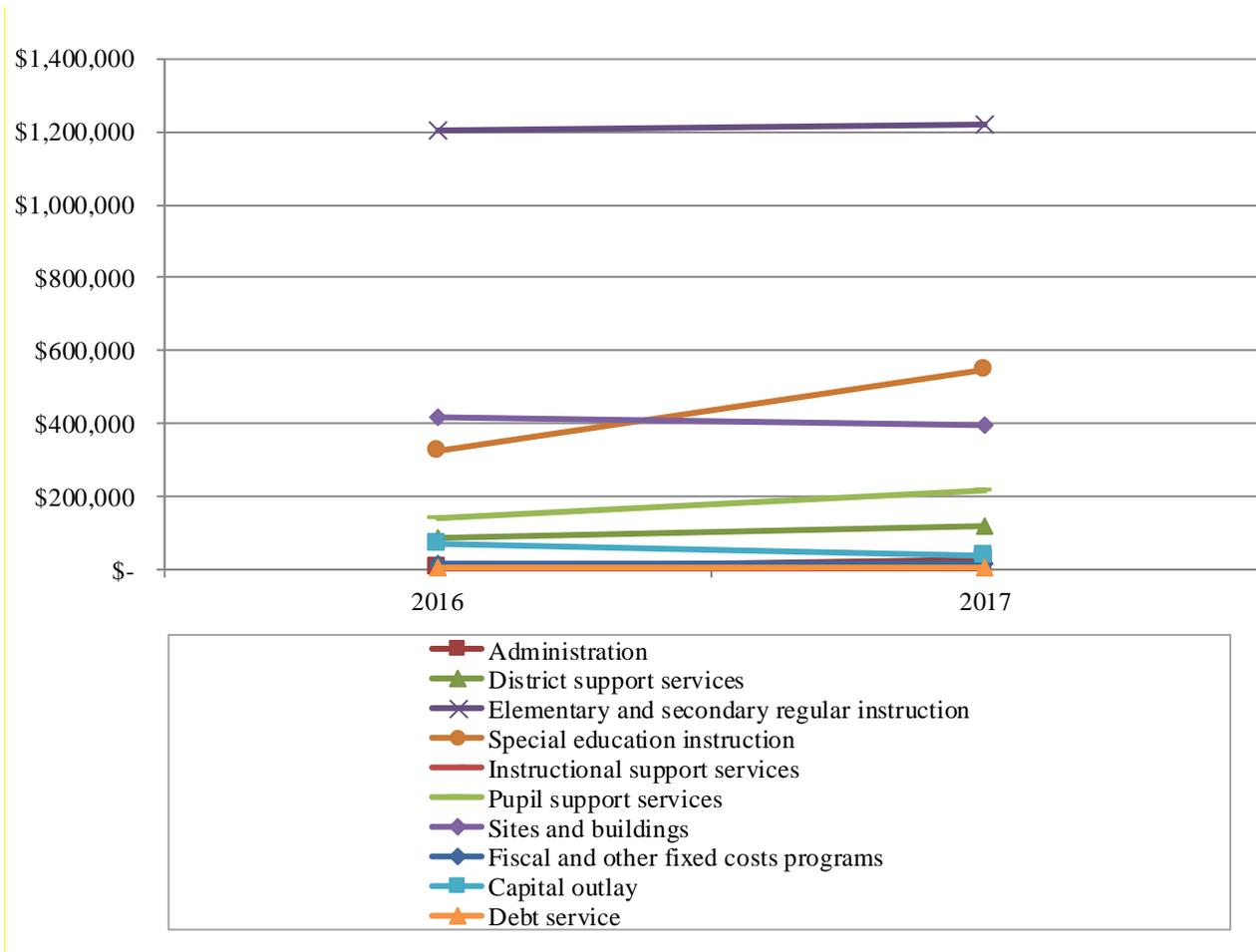
A further breakdown of revenues by source for the past two years is as follows:



A further breakdown of expenditures by program for the past two years in the General and Food Service funds are as follows:

	Amount		Per ADM	
	2016	2017	2016	2017
Administration	\$ 3,179	\$ 26,706	\$ 15	\$ 124
District support services	86,710	116,940	421	544
Elementary and secondary regular instruction	1,203,609	1,222,225	5,843	5,685
Special education instruction	324,754	545,169	1,576	2,536
Instructional support services	93,897	89,000	456	414
Pupil support services	143,629	219,575	697	1,021
Sites and buildings	417,966	397,661	2,029	1,850
Fiscal and other fixed costs programs	16,552	14,540	80	68
Capital outlay	68,389	39,746	332	185
Debt service	3,995	3,996	19	19
Total expenditures	\$ 2,362,680	\$ 2,675,558	\$ 11,468	\$ 12,446

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



Food Service Special Revenue Fund

A summary of activity is shown below:

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues	\$ 19,300	\$ 18,040	\$ (1,260)
Expenditures	<u>34,400</u>	<u>36,237</u>	<u>(1,837)</u>
Excess (deficiency) of revenues over (under) expenditures	(15,100)	(18,197)	(3,097)
Other financing sources (uses)			
Transfer in	<u>-</u>	<u>11,501</u>	<u>11,501</u>
Net change in fund balances	(15,100)	(6,696)	8,404
Fund balances, July 1	<u>6,696</u>	<u>6,696</u>	<u>-</u>
Fund balances, June 30	<u><u>\$ (8,404)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,404</u></u>

The fund experienced a decrease in fund balance during the year due to costs exceeding revenue net of a transfer in from the General fund. The School should have a minimum of one-month reserve in fund balance for this fund. This level would indicate fund balance should be around \$4,025. Also, a school food authority must limit its net cash resources to an amount that does not exceed three months' average expenditures for the nonprofit school food service, unless a higher amount has been approved by the Minnesota Department of Education Accountability and Improvement. The School is currently at 0 percent, which is due to a transfer in of \$11,501 from the General fund.

Community Capital, Inc. Special Revenue Fund

	<u>Fund Balances, June 30</u>		<u>Increase (Decrease)</u>
	<u>2016</u>	<u>2017</u>	
Community Capital, Inc.	<u>\$ 39,956</u>	<u>\$ 2,297</u>	<u>\$ (37,659)</u>

The Community Capital, Inc. fund balance decreased \$37,659 during the current year. The decrease is primarily the result of capital outlay for the HVAC project and scheduled debt payments. The ending fund balance of \$2,297 is restricted for debt service.

Fund Balance - Operating Funds

The fund balances of the operating funds as of June 30 were as follows:

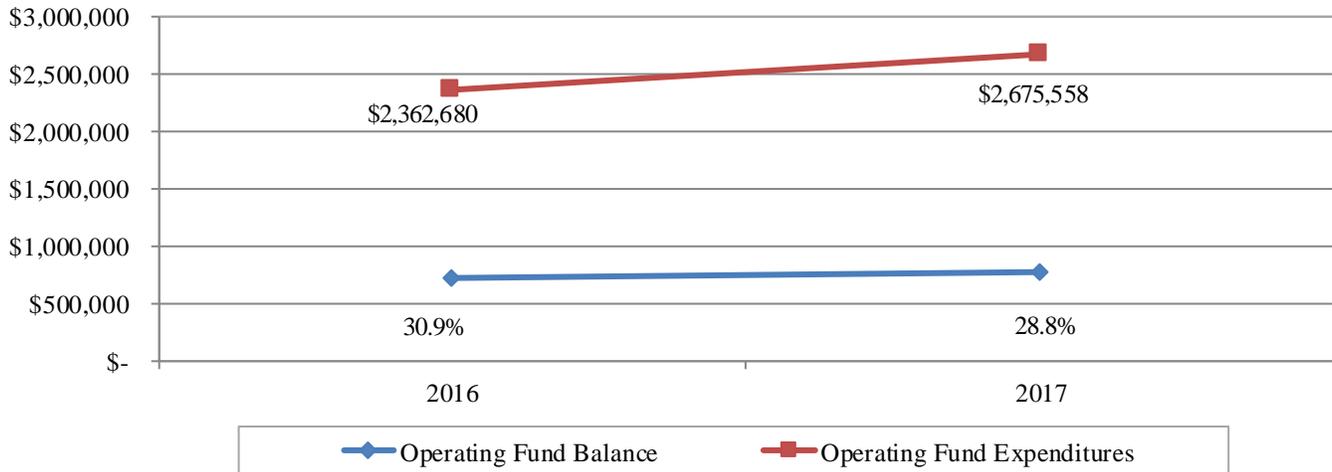
Fund	2016	2017
General	\$ 722,280	\$ 771,627
Food service	6,696	-
Total fund balances	\$ 728,976	\$ 771,627

The operating fund expenditures for the past two years were as follows:

Fund	2016	2017
General	\$ 2,360,167	\$ 2,639,321
Food service	2,513	36,237
Total expenditures	\$ 2,362,680	\$ 2,675,558

Net operating fund balances as a percent of operating fund expenditures	30.9 %	28.8 %
Average daily membership	206	215
Expenditures per pupil unit	\$ 11,469	\$ 12,444

Net Operating Fund Balance/Operating Expenditures



Fund Balance Analysis

The following is a summary of the changes in the School's fund balances for the year ended June 30, 2017:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers/</u> <u>Other Sources</u>	<u>Balance</u> <u>June 30, 2017</u>
General Fund					
Nonspendable					
Prepaid items	\$ 6,772	\$ 7,862	\$ 6,772	\$ -	\$ 7,862
Unassigned	<u>715,508</u>	<u>2,692,307</u>	<u>2,632,549</u>	<u>(11,501)</u>	<u>763,765</u>
Total	<u>\$ 722,280</u>	<u>\$ 2,700,169</u>	<u>\$ 2,639,321</u>	<u>\$ (11,501)</u>	<u>\$ 771,627</u>
Food Service Fund					
Restricted for food service	<u>\$ 6,696</u>	<u>\$ 18,040</u>	<u>\$ 36,237</u>	<u>\$ 11,501</u>	<u>\$ -</u>
Community Capital, Inc. Fund					
Restricted for debt service	<u>\$ 39,956</u>	<u>\$ 210,007</u>	<u>\$ 444,351</u>	<u>\$ 196,685</u>	<u>\$ 2,297</u>

Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future School 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.

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This communication is intended solely for the information and use of the members of the School Board, management and others within the administration of the School and the Minnesota Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

The comments and recommendations in the report are purely constructive in nature, and should be read in this context. 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.

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.

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP

Mankato, Minnesota

October 5, 2017