

Management Letter

City of Shakopee

Shakopee, Minnesota

For the Year Ended
December 31, 2017

May 23, 2018

Management, Honorable Mayor and City Council
City of Shakopee, Minnesota

We have audited the financial statements the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Shakopee, (the City) for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government 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 November 7, 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, 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.

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 over financial reporting (internal control) of the City. 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 City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 identified one deficiency described as 2017-001 in internal controls that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

2017-001**Prior Period Adjustment**

Condition:	A prior period adjustment of \$5,562,557 was made to recognize capital contributions from developer installed infrastructure for the years ending 2010 through 2016.
Criteria:	When developers install infrastructure, the City should accept and record the contributed infrastructure as capital assets.
Cause:	Unknown.
Effect:	The prior year capital assets and net position was understated.
Recommendation:	We recommend management review the current process for monitoring developments and implement a process to record and track the contributed capital assets. The City Council should also accept the developer contributed infrastructure as completed and approved by the City Engineer.

Management Response:

Staff discovered this oversight prior to this year's audit and worked with our auditors to ensure the appropriate prior period adjustment was recognized. Both finance and engineering staff agree that future developer installed infrastructure will be brought forward to the City Council for official acceptance once the infrastructure is completed and accepted by the City Engineer. City Council acceptance will trigger action within the finance department to ensure appropriate accounting of developer contributed infrastructure.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements. We noted no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* or Minnesota Statutes.

Difficulties Encountered in Performing the Audit

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

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the year ended December 31, 2017. We noted no transactions entered into by the City 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 financial statements were depreciation on capital assets, allocation of payroll, other postemployment benefits payable and the liability for the City's pension.

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- 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.

- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases and form of annuity payment upon retirement.

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.

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 23, 2018.

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 City'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 City'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, Schedule of changes in the Net Pension Liability and Related Ratios and the Schedule of Funding Progress for Other Post-Employment Benefits Plan), 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 and schedules), 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 or statistical sections, which accompany the financial statements but are 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 them.

Financial Position and Results of Operations

Our principal observations and recommendations are summarized below. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2017.

General Fund

The General fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund. The General fund balance increased \$1,216,628 from 2016. The total unassigned fund balance of \$11,918,971 is 44.8 percent of the 2018 budgeted expenditures less transfers. We recommend that the fund balance be maintained at a level sufficient to fund operations until the major revenue sources are received in June. The City's target General Fund balance is to maintain an unassigned level between 40% and 45% of budgeted expenditures. The City's ending fund balance is within these levels.

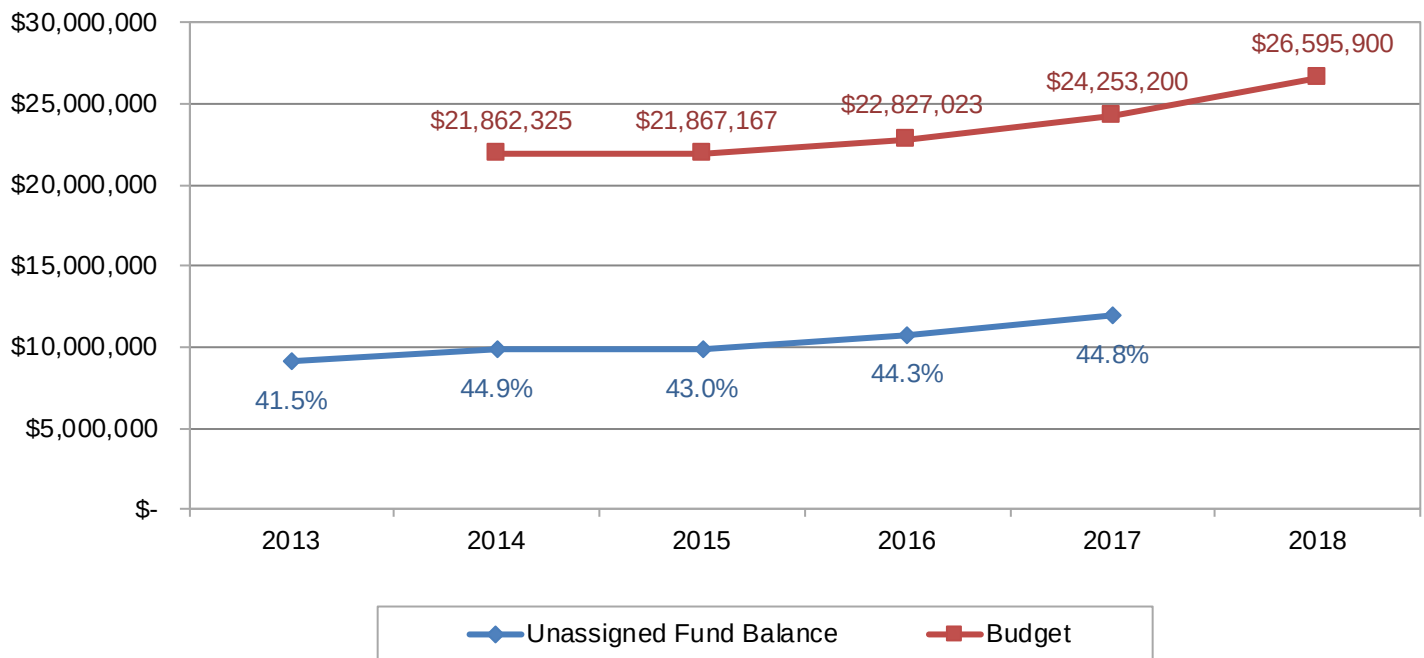
The purposes and benefits of a fund balance are as follows:

- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.
- The City is vulnerable to legislative actions at the State and Federal level. The State continually adjusts the local government aid formula. An adequate fund balance will provide a temporary buffer against aid adjustments and levy limits.
- Expenditures not anticipated at the time the annual budget was adopted may need immediate City Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.
- A strong fund balance will assist the City in maintaining and or improving its bond rating. The result will be better interest rates in future bond sales.

A table summarizing the General fund balance in relation to budget follows:

Year	Unassigned Fund Balance December 31,	Budget Year	Original General Fund Budget	Fund Balance as a Percent of Budget
2013	\$ 9,076,549	2014	\$ 21,862,325	41.5 %
2014	9,824,097	2015	21,867,167	44.9
2015	9,818,537	2016	22,827,023	43.0
2016	10,739,178	2017	24,253,200	44.3
2017	11,918,971	2018	26,595,900	44.8

Fund Balance as a Percent of Next Year's Budget Less Transfers



A summary of activity compared to budget is presented below:

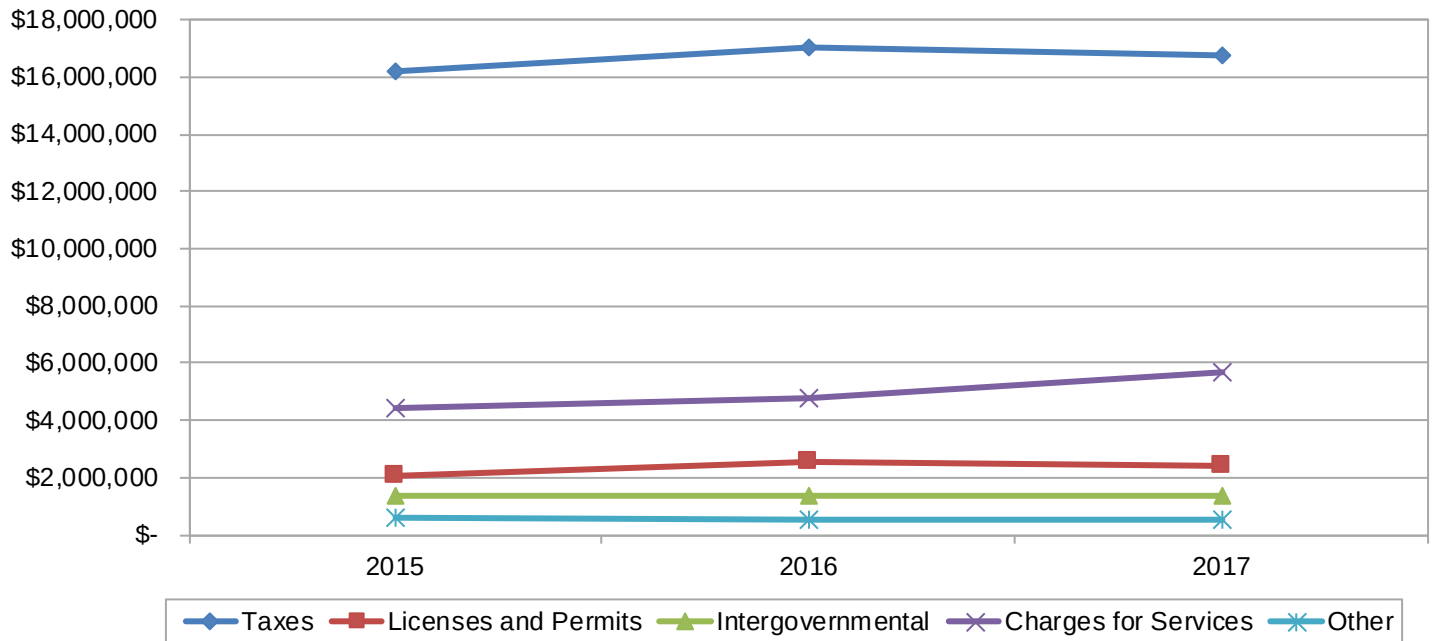
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	\$ 25,330,550	\$ 26,356,474	\$ 1,025,924
Expenditures	<u>24,484,350</u>	<u>23,673,607</u>	<u>(810,743)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>846,200</u>	<u>2,682,867</u>	<u>1,836,667</u>
Other Financing Sources (Uses)			
Sale of capital assets	3,750	4,661	911
Capital Lease Issued	-	79,100	79,100
Transfers in	250,000	250,000	-
Transfers out	<u>(700,000)</u>	<u>(1,800,000)</u>	<u>(1,100,000)</u>
Total Other Financing Sources (Uses)	<u>(446,250)</u>	<u>(1,466,239)</u>	<u>(1,019,989)</u>
Net Change in Fund Balances	<u>\$ 399,950</u>	1,216,628	<u>\$ 816,678</u>
Fund Balances, January 1		<u>10,761,366</u>	
Fund Balances, December 31		<u>\$ 11,977,994</u>	

- Revenues were \$1,025,924 over budget. The largest areas over budget were licenses and permits and charges for services over budget by \$859,242 and \$424,624, respectively.
- Expenditures were under budget by \$810,743. The largest area under budget was Public Works by \$359,630.

A comparison for the last three years General fund revenues by source follows:

Source	2015	2016	2017	2017 Percent of Total	2017 Per Capita
Taxes	\$ 16,160,075	\$ 17,022,204	\$ 16,771,524	62.80 %	\$ 408
Licenses and Permits	2,023,436	2,564,729	2,391,942	9.00	58
Intergovernmental	1,356,733	1,344,279	1,369,027	5.10	33
Charges for Services	4,452,415	4,750,514	5,653,774	21.20	137
Fines and Forfeits	7,093	11,213	2,719	-	-
Special Assessments	12,043	15,818	3,875	-	-
Miscellaneous	319,491	218,734	163,613	0.60	4
Sale of Capital Assets	-	9,134	4,661	-	-
Capital Lease Issued	-	-	79,100	0.30	2
Transfers In	250,000	250,000	250,000	1.00	6
Total Revenues and Other Financing Sources	<u>\$ 24,581,286</u>	<u>\$ 26,186,625</u>	<u>\$ 26,690,235</u>	<u>100.0 %</u>	<u>\$ 648</u>

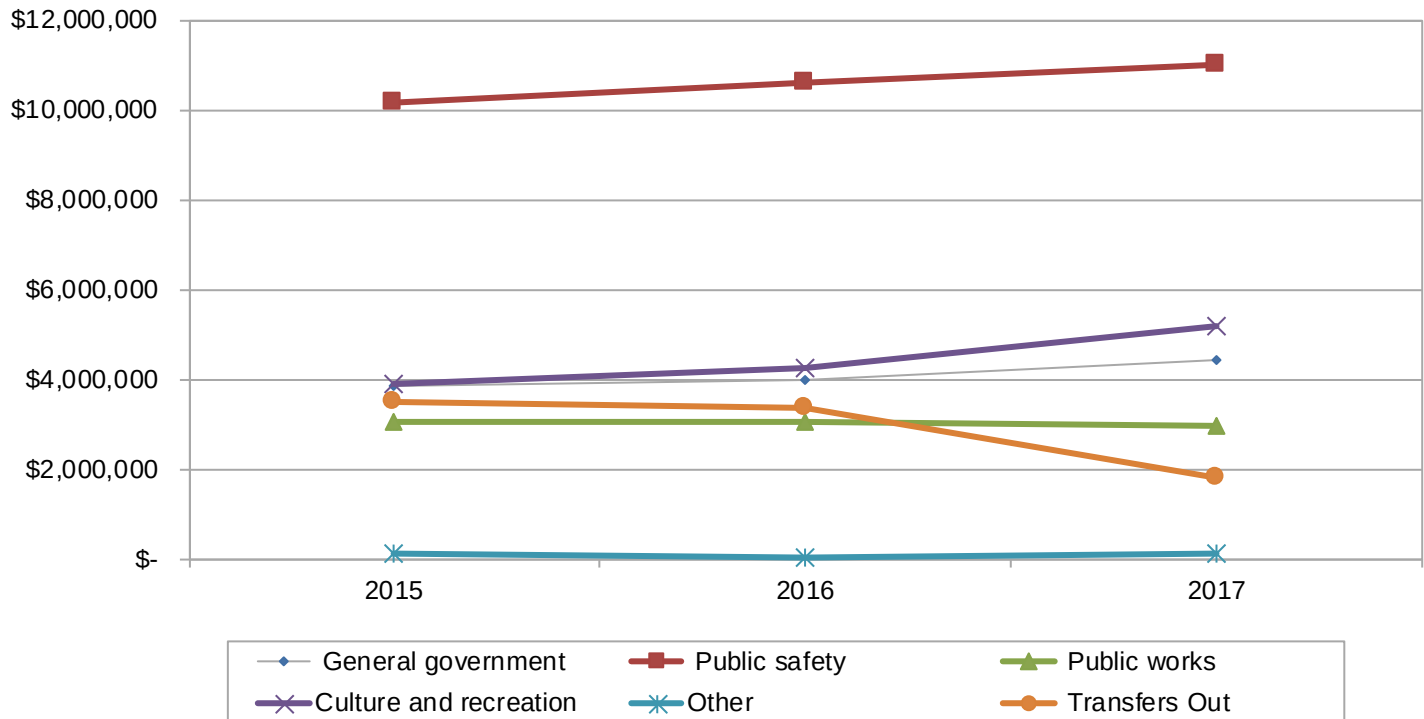
The General Fund revenues summarized above are presented graphically as follows:



A more detailed comparison of expenditures and transfers for the last three years is as follows:

Program	2015	2016	2017	2017 Percent of Total	2017 Per Capita
Current					
General government	\$ 3,861,312	\$ 3,999,953	\$ 4,415,257	17.3 %	\$ 107
Public safety	10,150,416	10,585,899	11,004,434	43.2	267
Public works	3,036,284	3,061,172	2,973,840	11.7	72
Culture and recreation	3,889,078	4,232,167	5,170,130	20.3	126
Total Current	20,937,090	21,879,191	23,563,661	92.5	572
Capital Outlay	126,666	37,423	93,341	0.4	2
Debt Service	-	-	16,605	0.1	-
Transfers Out	3,515,466	3,348,755	1,800,000	7.0	44
Total Expenditures and Transfers	<u>\$ 24,579,222</u>	<u>\$ 25,265,369</u>	<u>\$ 25,473,607</u>	<u>100.0 %</u>	<u>\$ 618</u>

The expenditures and transfers summarized above are presented graphically as follows:



Special Revenue Funds

Special revenue funds receive revenue from specific sources and expenditures are for specific purposes. A summary of the special revenue funds and fund balances is shown below:

Fund	Fund Balances, December 31,		Increase (Decrease)
	2017	2016	
Major			
Economic Development Authority	\$ 356,588	\$ 1,503,917	\$ (1,147,329)
Nonmajor			
Forfeitures	221,048	186,965	34,083
Telecommunication	74,139	70,795	3,344
SCDP Grant	10,805	4,734	6,071
Revolving Loan	138,004	263,787	(125,783)
Total	<u>\$ 800,584</u>	<u>\$ 2,030,198</u>	<u>\$ (1,229,614)</u>

Each of the special revenue funds have positive fund balances at year end and have been able to support their respective activities.

The Economic Development Authority decreased by \$1,147,329 due to the downtown redevelopment project.

Internal Service Funds

Internal Service Funds are used to accumulate and allocate costs internally among the City's various functions. The City's internal service funds are allocated between governmental and business-type activities and are combine with the respective governmental activities and business-type activities in the government-wide financial statements.

Fund	Net Position, December 31,		Increase (Decrease)
	2017	2016	
Internal Service Funds			
Equipment	\$ 11,650,549	\$ 11,550,556	\$ 99,993
Buildings	20,595,566	23,972,155	(3,376,589)
Park Assets	9,146,693	8,910,677	236,016
Employee Benefits	(1,177,149)	(1,077,975)	(99,174)
Information and Technology	821,914	701,229	120,685
Self Insurance	1,411,197	548,252	862,945
Total	<u>\$ 42,448,770</u>	<u>\$ 44,604,894</u>	<u>\$ (2,156,124)</u>

The Buildings Fund decreased in net position due to funding for the City Hall construction project which is accounted for in a separate capital projects fund. The classification of net position consists of \$32,990,938 investment in capital assets and \$9,457,832 unrestricted.

Capital Projects Funds

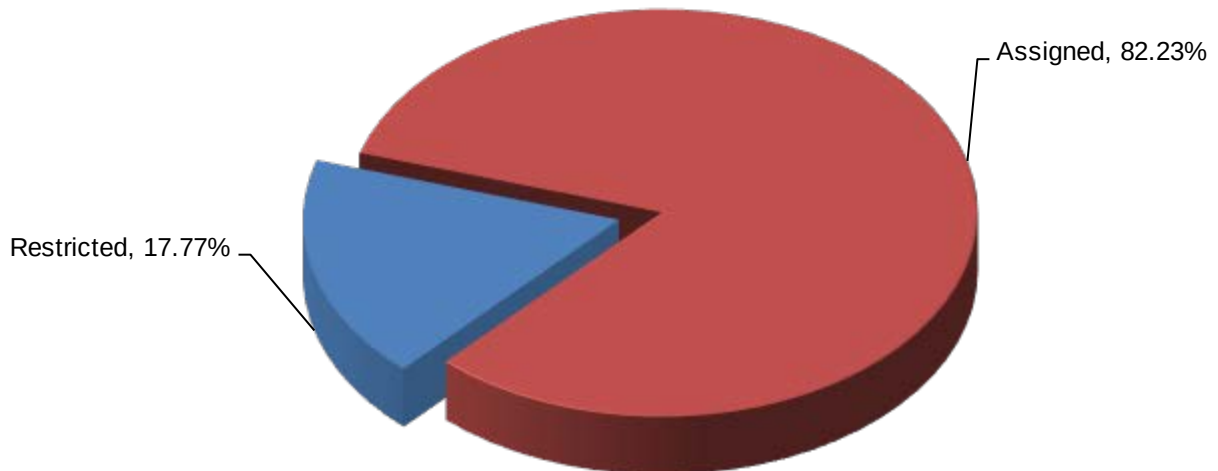
The following funds, with fund balances included, comprise the capital projects fund type:

Fund	Fund Balances, December 31,		Increase (Decrease)
	2017	2016	
Major			
Capital Improvements	\$ 6,592,822	\$ 4,744,275	\$ 1,848,547
Community Center & Ice Area	188,217	6,547,457	(6,359,240)
City Hall	(1,071,720)	1,893,613	(2,965,333)
TIF District No. 17	(2,164,600)	-	(2,164,600)
Nonmajor			
Park Reserve	1,228,550	591,080	637,470
TIF District No. 10	(4,695)	(8,602)	3,907
TIF District No. 14	85,627	54,477	31,150
TIF District No. 15	35,024	20,244	14,780
TIF District No. 16	1,849	-	1,849
Road Expansion Dedication	95,568	94,591	977
Lions Park	22,000	-	22,000
Tree Replacement	301,405	183,545	117,860
Sealcoat	111,356	72,842	38,514
Property Acquisition Fund	-	(31,326)	31,326
Total	\$ 5,421,403	\$ 14,162,196	\$ (8,740,793)

The City has three funds with ending deficit fund balances. We understand these are planned deficits and are expected to be eliminated in the future. We recommend the City continue to evaluate the status of each fund annually to ensure appropriate progress is being achieved.

A summary of the restricted and assigned fund balances follows:

Capital Project Fund Balance by Classification



Debt Service Funds

Debt Service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than enterprise fund debt).

Debt Service funds may have one or a combination of the following revenue sources pledged to retire debt as follows:

- Property taxes - Primarily for general City benefit projects such as parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Tax increments - Pledged exclusively for tax increment/economic development districts.
- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (tax increments or special assessments) for a period of one to two years. Bonds are issued with this timing difference considered in the form of capitalized interest.
- Special assessments - Charges to benefited properties for various improvements.

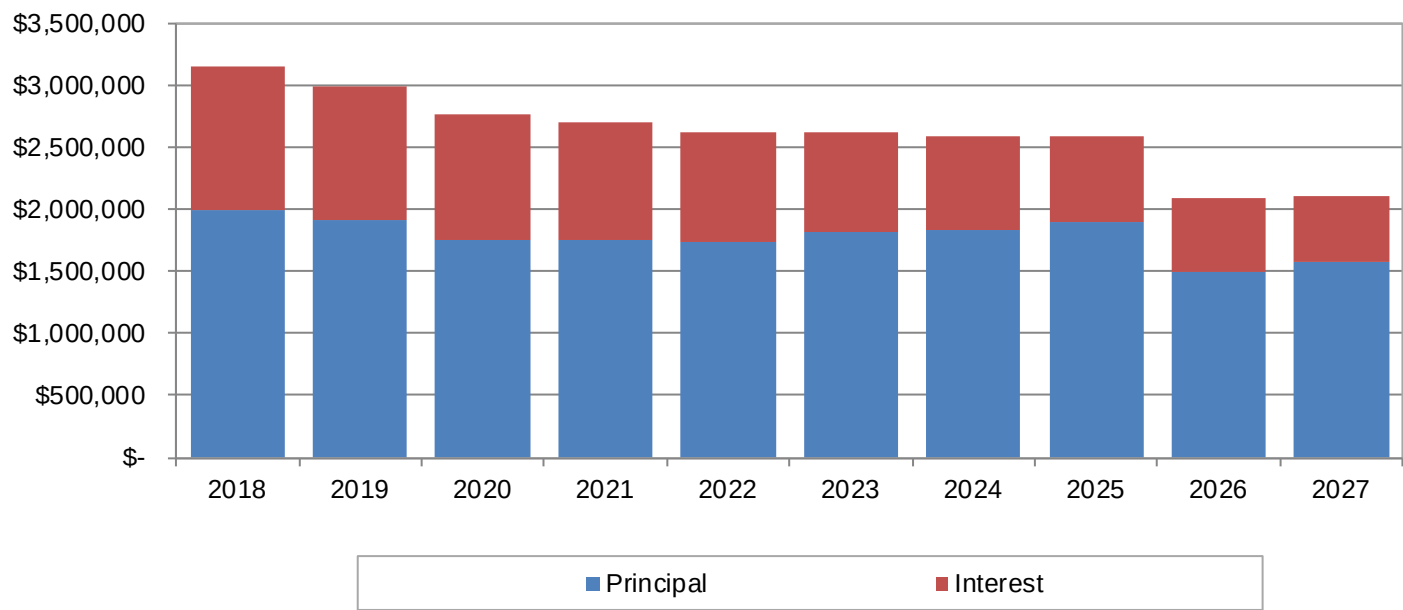
In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- Residual project proceeds from the related capital projects fund
- Investment earnings
- State or federal grants
- Transfers from other funds

All Debt Service funds with the total assets and debt remaining to be paid are shown below:

Fund	Debt Description	December 31, 2017			Final Maturity Date
		Total Cash	Total Assets	Bonds Outstanding	
3039	2007B Improvement Bonds	\$ 164,986	\$ 165,689	\$ 155,000	2/1/2018
3041	2008A Improvement Bonds	267,267	318,987	425,000	2/1/2019
3042	2010A Improvement Bonds	197,357	244,062	505,000	2/1/2021
3043	2012A Refunding Bonds	1,678,455	2,742,878	3,760,000	2/1/2025
3044	2016A Tax Abatement Bond	1,286,267	1,291,748	29,500,000	2/1/2036
	Total	<u>\$ 3,594,332</u>	<u>\$ 4,763,364</u>	<u>\$ 34,345,000</u>	

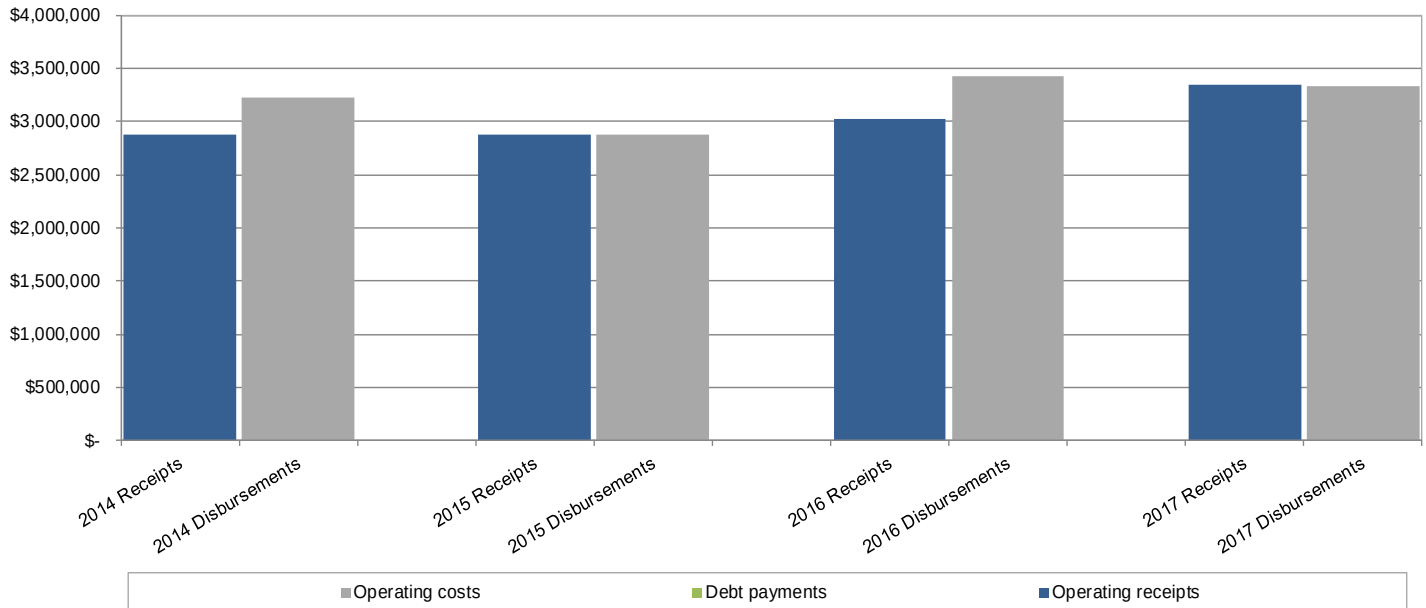
The next 10 years of principal and interest payments are as follows:



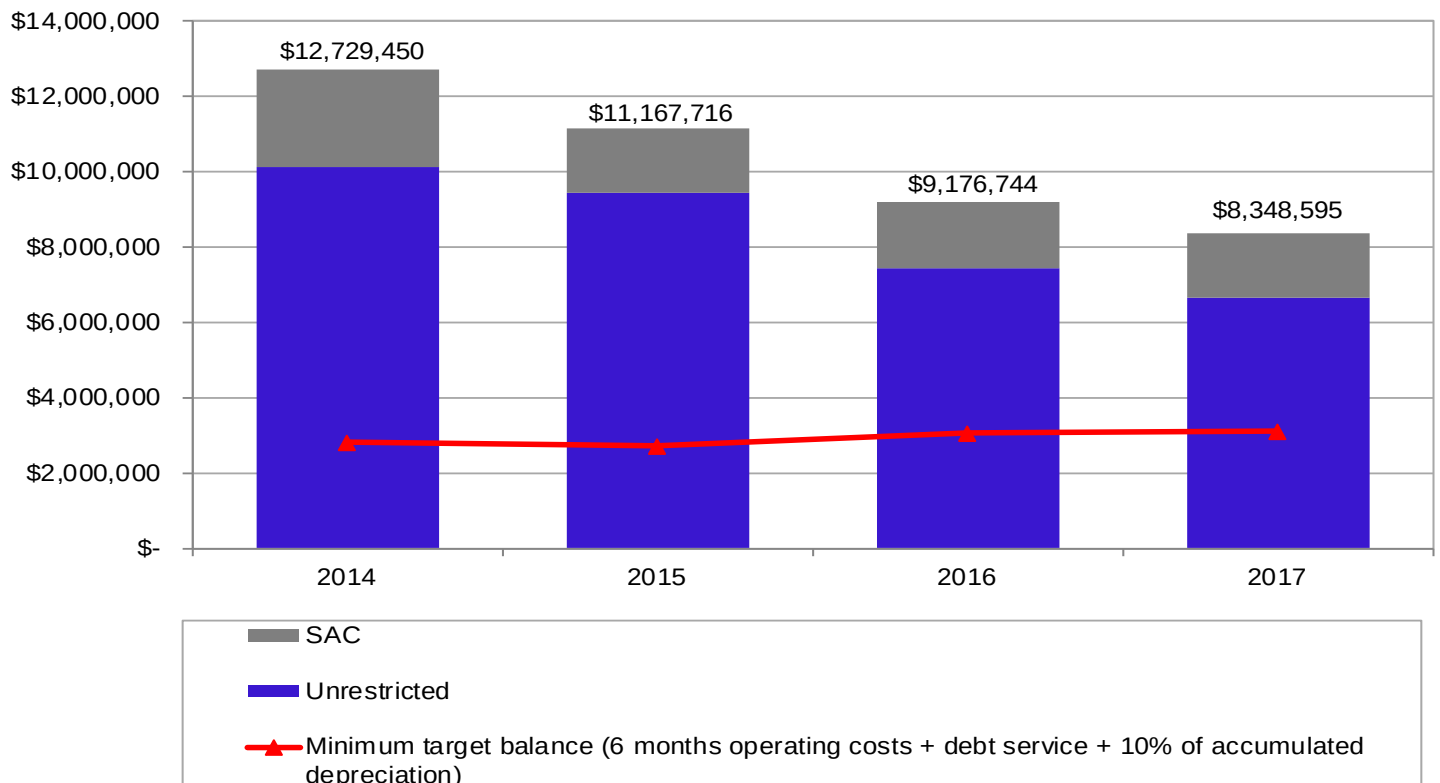
Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The results of the operations in terms of cash flow and the breakdown of the cash balances for the past four years are as follows:

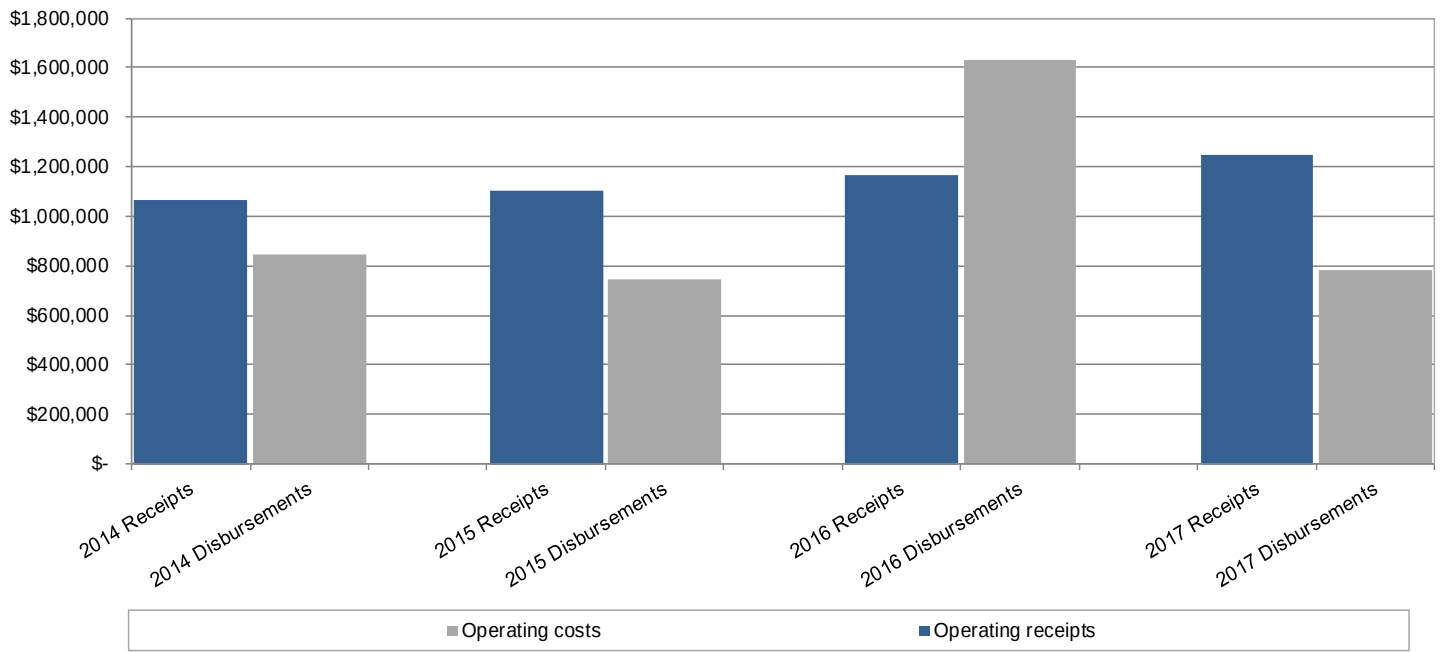
Sewer Cash Flows



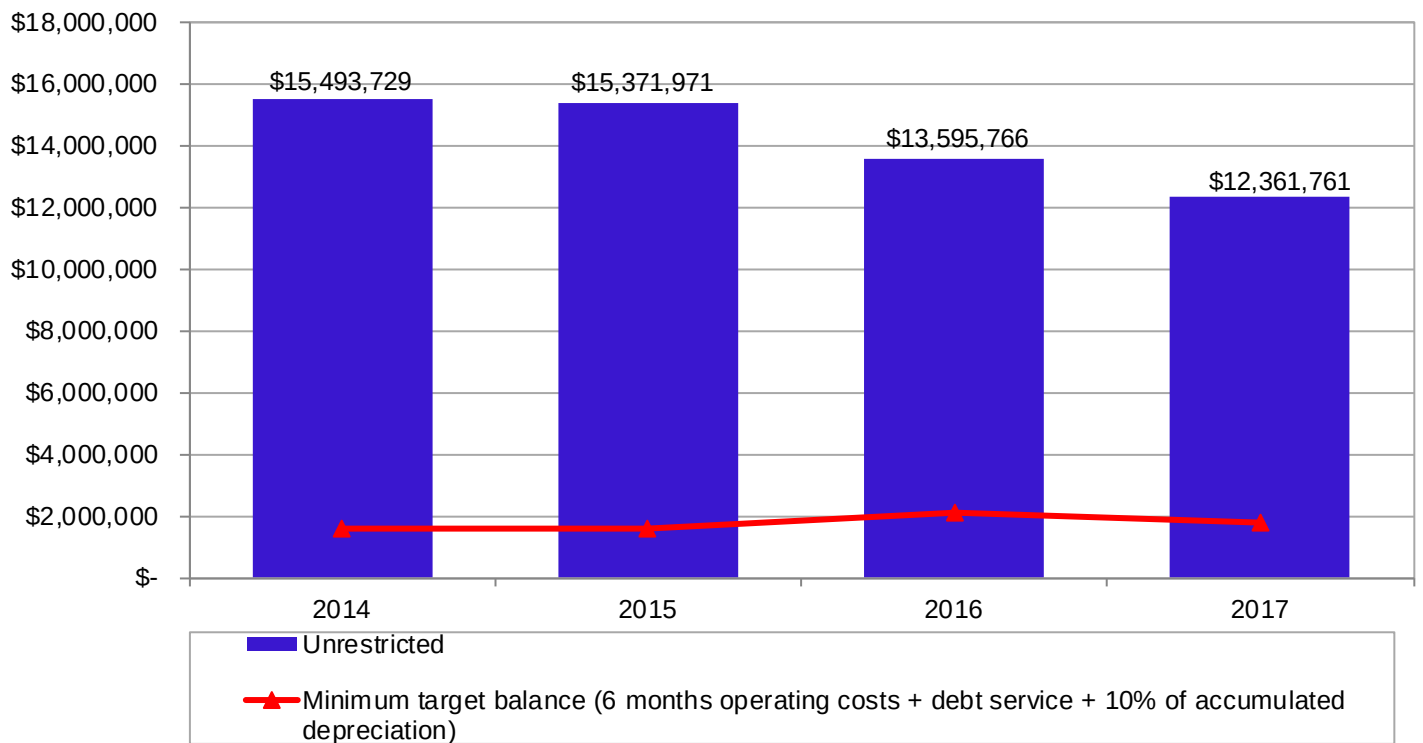
Sewer Cash Balances



Storm Drainage Fund Cash Flows

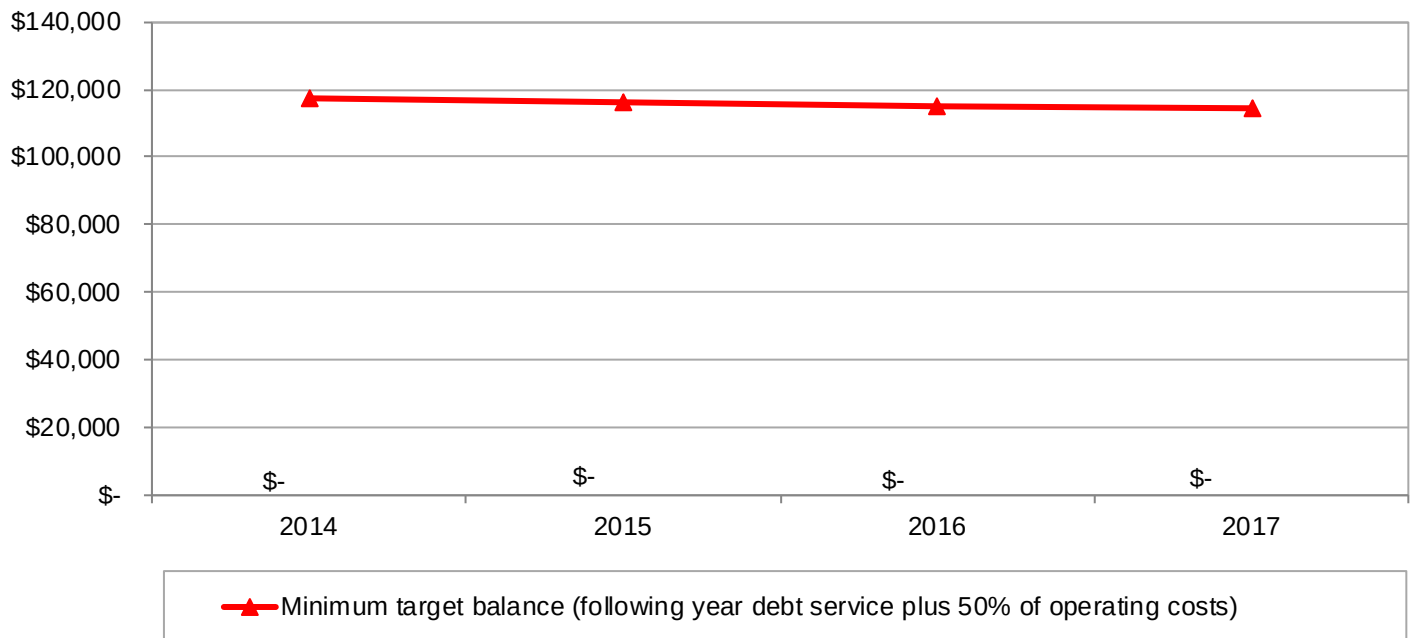


Storm Drainage Fund Cash Balances



The Refuse fund was created during 2014 with the City's purchase of garbage carts. The negative unrestricted net position is anticipated to be reduced each year as service charges continue to be collected from customers.

Refuse Fund Cash Flows



Annual revenue generated to repay initial purchase of recycling carts with an advance from the sewer fund. Outstanding advance at December 31, 2017 is \$746,924.

Ratio Analysis

The following captures a few ratios from the City's financial statements that give some additional information for trend and peer group analysis. The peer group average is derived from information we have requested from the Office of the State Auditor. Different peer group averages are used for Cities of the 2nd class (population 20,000 - 100,000). The peer group comparable cities is compiled from the following cities: Maplewood, Coon Rapids, Lakeville, Roseville, Blaine, St. Louis Park, Golden Valley, Inver Grove Heights, Burnsville and Savage. The majority of these ratios facilitate the use of economic resources focus and accrual basis of accounting at the government-wide level. A combination of solvency (ability to pay its long-term obligations), funding (comparison of financial amounts and economic indicators to measure changes in financial capacity over time) and common-size (comparison of financial data with other cities regardless of size) ratios are shown below.

Ratio	Calculation	Source	2014	2015	2016	2017
Debt to Assets	Total liabilities/total assets	Government-wide	8% 21% 26%	9% 26% 31%	25% 34% 37%	18% N/A
Debt Per Capita	Bonded debt/population	Government-wide	\$ 353 \$ 1,311 \$ 1,557	\$ 208 \$ 1,286 \$ 1,499	\$ 948 \$ 1,274 \$ 1,389	\$ 884 N/A
Taxes Per Capita	Tax revenues/population	Government-wide	\$ 436 \$ 518 \$ 576	\$ 446 \$ 532 \$ 589	\$ 470 \$ 523 \$ 590	\$ 522 N/A
Current Expenditures Per Capita	Governmental fund current expenditures/population	Governmental funds	\$ 609 \$ 722 \$ 602	\$ 591 \$ 658 \$ 653	\$ 598 \$ 642 \$ 601	\$ 614 N/A
Capital Expenditures Per Capita	Governmental fund capital outlay/population	Governmental funds	\$ 185 \$ 262 \$ 262	\$ 138 \$ 277 \$ 272	\$ 799 \$ 288 \$ 326	\$ 447 N/A
Capital Assets % Left to Depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	59% 60% 60%	57% 61% 63%	61% 60% 63%	62% N/A
Capital Assets % Left to Depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	74% 61% 58%	73% 61% 59%	72% 58% 59%	72% N/A

Represents the City of Shakopee

Peer Group Ratio

Comparable Cities Group

Debt-to-Assets Leverage Ratio (Solvency Ratio)

The debt-to-assets leverage ratio is a comparison of a City's total liabilities to its total assets or the percentage of total assets that are provided by creditors. It indicates the degree to which the City's assets are financed through borrowings and other long-term obligations (i.e. a ratio of 50 percent would indicate half of the assets are financed with outstanding debt).

Bonded Debt per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total bonded debt by the population of the City and represents the amount of bonded debt obligation for each citizen of the City at the end of the year. The higher the amount, the more resources are needed in the future to retire these obligations through taxes, assessments or user fees.

Taxes per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total tax revenues by the population of the City and represents the amount of taxes for each citizen of the City for the year. The higher this amount is, the more reliant the City is on taxes to fund its operations.

Current Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total current governmental expenditures by the population of the City and represents the amount of governmental expenditures for each citizen of the City during the year. Since this is generally based on ongoing expenditures, we would expect consistent annual per capita results.

Capital Expenditures per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total governmental capital outlay expenditures by the population of the City and represents the amount of capital expenditures for each citizen of the City during the year. Since projects are not always recurring, the per capita amount will fluctuate from year to year.

Capital Assets Percentage (Common-size Ratio)

This percentage represents the percent of governmental or business-type capital assets that are left to be depreciated. The lower this percentage, the older the City's capital assets are and may need major repairs or replacements in the near future. A higher percentage may indicate newer assets being constructed or purchased and may coincide with higher debt ratios or bonded debt per capita.

Future Accounting Standard Changes

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

Future Accounting Standard Changes (Continued)

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.

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.

Future Accounting Standard Changes (Continued)

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.

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.

Future Accounting Standard Changes (Continued)

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.

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.

Future Accounting Standard Changes (Continued)

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.

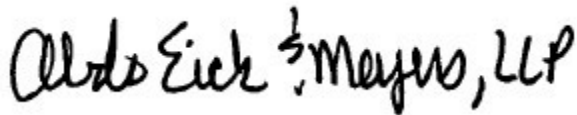
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Restriction on Use

This communication is intended solely for the information and use of the City Council, management and the Minnesota Office of the State Auditor and is not intended and should not be used by anyone other than those 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 continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
May 23, 2018