CREDIT RIVER TOWNSHIP
SCOTT COUNTY, MINNESOTA

MANAGEMENT LETTER

FOR THE YEAR ENDED
DECEMBER 31, 2013

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

CREDIT RIVER TOWNSHIP
SCOTT COUNTY, MINNESOTA

MANAGEMENT LETTER

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ABDO
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February 17, 2014

Management and Board of Supervisors
Credit River Township
Scott County, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Credit River Township, Minnesota (the Township) for the year ended December 31, 2013. 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 November 4, 2013. 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

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

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Township. 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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify and deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have 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. We noted no instances of noncompliance with Minnesota statutes.

Summary of Prior Year Findings

2012-001 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. Recent auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. 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 over safeguarding of assets and the reliability of financial reporting.

Management response:

The Township has taken the necessary measures to remedy the finding for preparation of financial statements. The treasurer will be reviewing the disclosure checklist to ensure all required disclosures are presented and that the Township agrees its financial software to the numbers reported on the financial statements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed in 2013. We noted no transactions entered into by the Township 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 significant estimate affecting the financial statements was depreciation on capital assets and allocation of payroll.

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

- Allocations of gross wages and payroll benefits are approved by the Board within the Township's budget and are derived from each employee's estimated time to be spent servicing the respective functions of the Township.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. 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 each opinion unit's financial statements taken as a whole.

We proposed no journal entries that we consider to be audit entries or corrections of management decisions; however, we assisted in preparing a number of year-end accounting entries. These were necessary to adjust the Township's records at year end to correct ending balances. The Township should establish more detailed processes and procedures to reduce the total number of entries in each category. The Township will receive better and timelier information if the preparation of year-end entries is completed internally.

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 Representations

We have requested certain representations from management that are included in the management representations letter dated February 17, 2014.

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 Township'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 Township'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 accompanying the financial statements, 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.

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 Township's financial statements for the year ended December 31, 2013.

General Fund

The General fund is used to account for resources traditionally associated with government, which are not required legally or by sound principal management to be accounted for in another fund. The total General fund balance decreased $98,301 in 2013. The total ending fund balance is $553,868 and $2,246 is nonspendable for prepaid items with the remaining fund balance being unassigned. The fund balance represents 115.6 percent of the 2014 budgeted expenditures. At the current level, the Township has over one year worth of available resources for general operations.

Minnesota townships must maintain substantial amounts of fund balance in order to meet their liquidity and working capital needs as an operating entity. That is because a substantial portion of your revenue sources (taxes and intergovernmental revenues) are received in the last two months of each six-month cycle.

The local government may assign and report some or all of the fund balance as assigned or committed. The Township has approved a policy to maintain an unassigned fund balance in the General fund of an amount not less than 50 percent. This helps address citizen concerns as to the use of fund balance and tax 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.

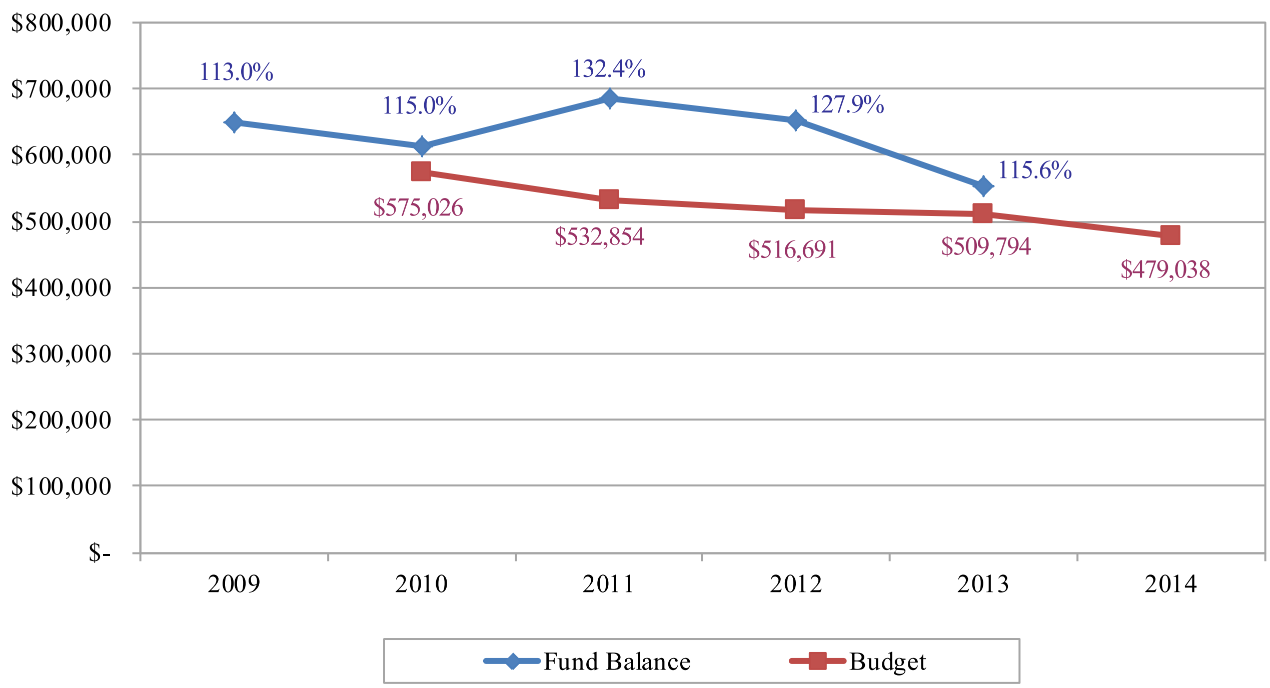
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Board action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

- A strong fund balance will assist the Township in maintaining, improving or obtaining 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	Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2009	$ 650,052	2010	$ 575,026	113.0 %
2010	612,797	2011	532,854	115.0
2011	683,994	2012	516,691	132.4
2012	652,169	2013	509,794	127.9
2013	553,868	2014	479,038	115.6

Fund Balance as a Percent of Next Year's Budget



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A summary of the 2013 operations is as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues	$ 399,600	$ 402,413	$ 2,813
Expenditures	509,794	500,714	9,080
Net change in fund balances	(110,194)	(98,301)	11,893
Fund balances, January 1	652,169	652,169	-
Fund balances, December 31	$ 541,975	$ 553,868	$ 11,893

A short analysis of budget variances follows:

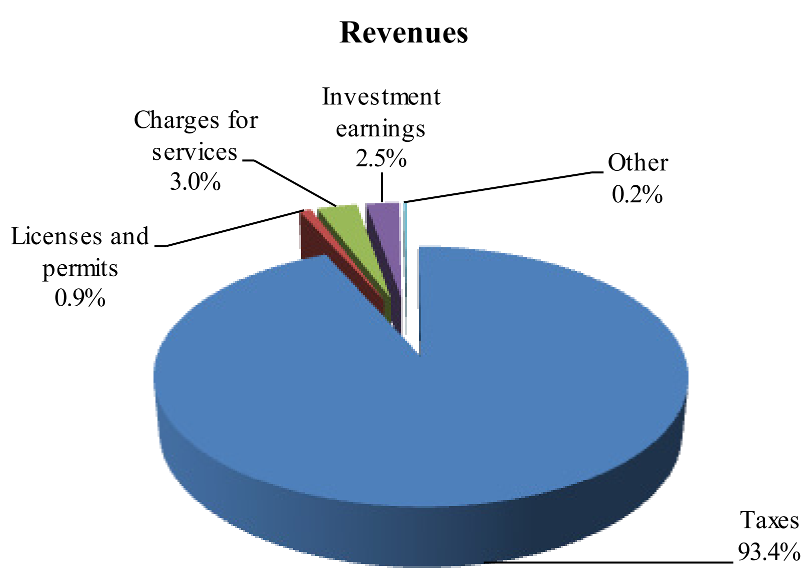
- Expenditures were under budget in total by $9,080. General government expenditures had the largest positive budget variance of $11,983 due to less than expected expenditures relating to the Town Board.

- Total revenues were over budget by $2,813 mainly due to franchise taxes and charges for services being more than expected. The only mentionable negative budget variance was in interest earnings of $5,537.

A summary of General fund revenues is as follows:

Source	2011	2012	2013	Percent of Total	Per Capita
Property taxes	$ 503,044	$ 368,623	$ 357,609	88.9 %	$ 70
Franchise taxes	13,240	15,305	17,773	4.4	3
Licenses and permits	4,849	3,150	3,550	0.9	1
Intergovernmental	2,238	412	408	0.1	-
Charges for services	10,327	11,835	12,081	3.0	2
Special assessments	644	6,820	-	-	-
Investment earnings	17,606	15,896	10,063	2.5	2
Miscellaneous	-	-	929	0.2	-
Total revenues	$ 551,948	$ 422,041	$ 402,413	100.0 %	$ 78

The sources of General fund revenues for 2013 are presented graphically as follows:



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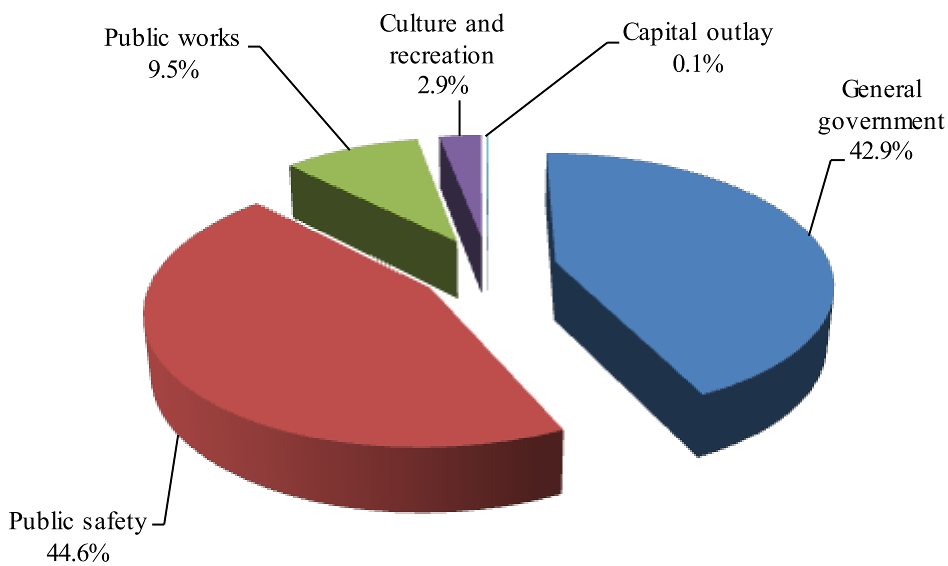
A summary of General fund expenditures is as follows:

Program	2011	2012	2013	Percent of Total	Per Capita
Current					
General government	$ 217,304	$ 209,363	$ 214,682	42.9 %	$ 42
Public safety	215,860	211,681	223,311	44.6	44
Public works	36,208	22,556	47,342	9.5	9
Culture and recreation	8,019	7,394	14,713	2.9	3
Total current	477,391	450,994	500,048	99.9	98
Capital outlay	3,360	2,872	666	0.1	-
Total expenditures	$ 480,751	$ 453,866	$ 500,714	100.0 %	$ 98

The program expenditures for 2013 are presented graphically as follows:

Expenditures



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Special Revenue Funds

A summary of year-end fund balances for all special revenue funds follows:

Fund	Fund Balances December 31, 2013	Fund Balances December 31, 2012	Increase (Decrease)
Major			
Road and Bridge	$ 958,643	$ 934,383	$ 24,260
Nonmajor			
Park	143,439	139,187	4,252
Total special revenue funds	$ 1,102,082	$ 1,073,570	$ 28,512

The Road and Bridge fund had an overall increase in fund balance of $24,260. The fund has committed $154,982 for road and bridge improvements expected to be spent in future years. The remaining fund balance is assigned for future road and bridge improvements.

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, general Township benefit projects such as parks and township buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (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

A comparison of the assets of the Debt Service fund is as follows:

Fund	Cash Balance	Total Assets	Debt Outstanding
2009 G.O. Improvement Bond Fund	$ 139,282	$ 299,692	$ 545,000
2012 G.O. Improvement Bond Fund	153,535	674,516	1,100,000
Total debt service funds	$ 292,817	$ 974,208	$ 1,645,000

The Township should monitor cash flow requirements for the bond throughout the life of the bond to ensure there will be available resources to pay the debt service payments. The following schedule shows the projected cash flow of the fund based on schedule tax collection and amortization of outstanding assessments:

Year	Scheduled Tax Collections	Estimated Special Assessment Collections	Principal and Interest Payments	Estimated Cash Balance
2013	$ -	$ -	$ -	$ 292,817
2014	95,684	123,472	206,458	305,515
2015	102,381	112,179	214,175	305,899
2016	108,702	108,619	216,471	306,749
2017	114,495	105,059	218,350	307,952
2018	125,091	101,498	219,742	314,799
2019	57,000	66,124	225,573	212,350
2020	62,600	64,044	117,485	221,509
2021	62,700	61,963	120,683	225,489
2022	67,800	59,882	118,612	234,559
2023	-	-	121,260	113,299

Capital Projects Funds

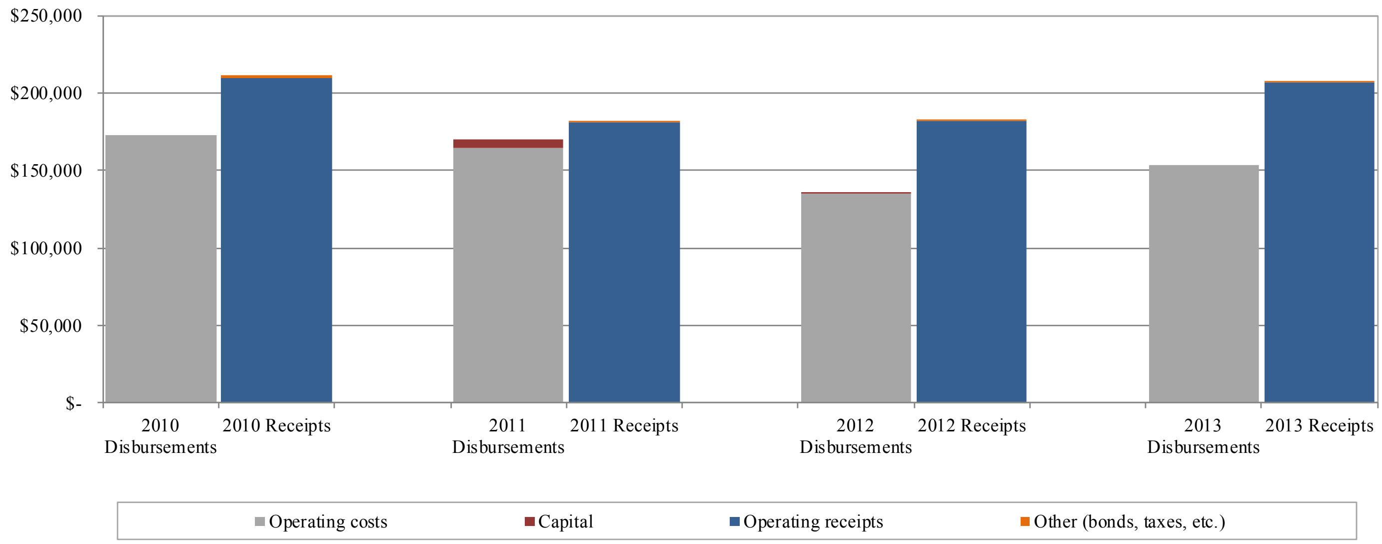
The Township established the Capital Improvements fund in 2011 through transferring funds from the Road and Bridge special revenue fund. The Capital Improvements fund will be used for future capital projects. The Township established the Monterey, Lynn and 207th Street fund in 2012. The fund will be used to track expenditures for the street improvement project.

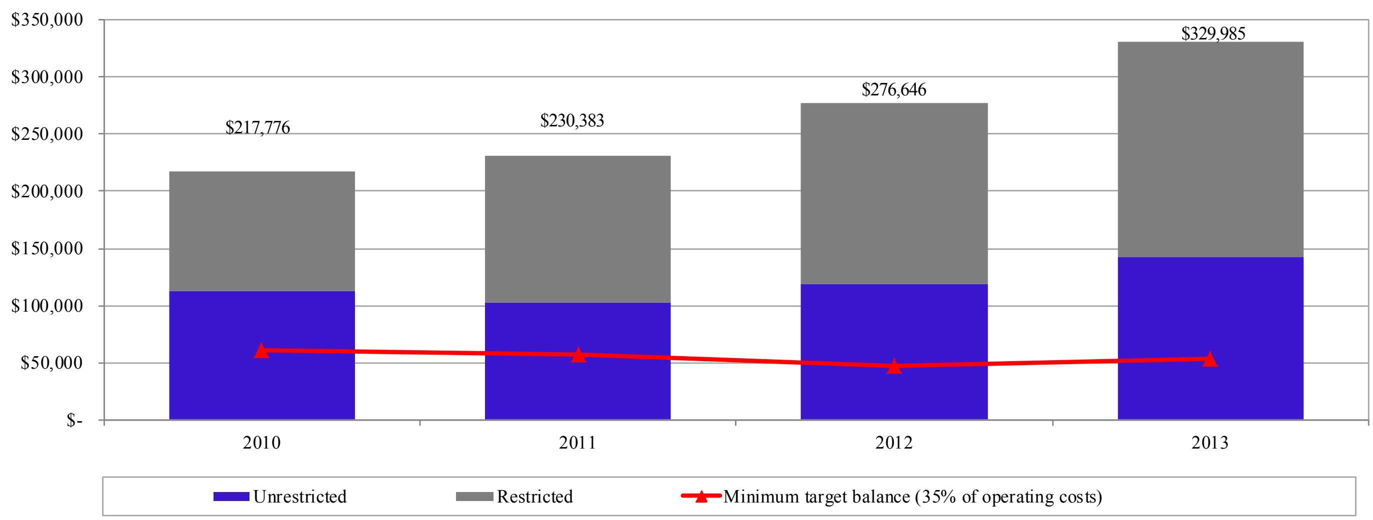
Fund	Fund Balances December 31, 2013	Fund Balances December 31, 2012	Increase (Decrease)
Major			
Capital Improvements	$ 598,963	$ 744,712	$ (145,749)
Monterey, Lynn and 207th Street	68,961	331,964	(263,003)
Total capital projects funds	$ 667,924	$ 1,076,676	$ (408,752)

Enterprise Funds

The Township operates three enterprise funds which are combined on the Enterprise statements. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Township has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. A summary of their operations and cash position follows.

Sewer Subordinate Service Districts





The sewer fund continues to operate with operating revenues exceeding operating expenses. The three districts as a whole have enough cash to cover operations and continue to set aside reserves for future capital purchases. For a view of the individual districts progress see the following page. The graph below represents the net increase/decrease in cash and cash equivalents.

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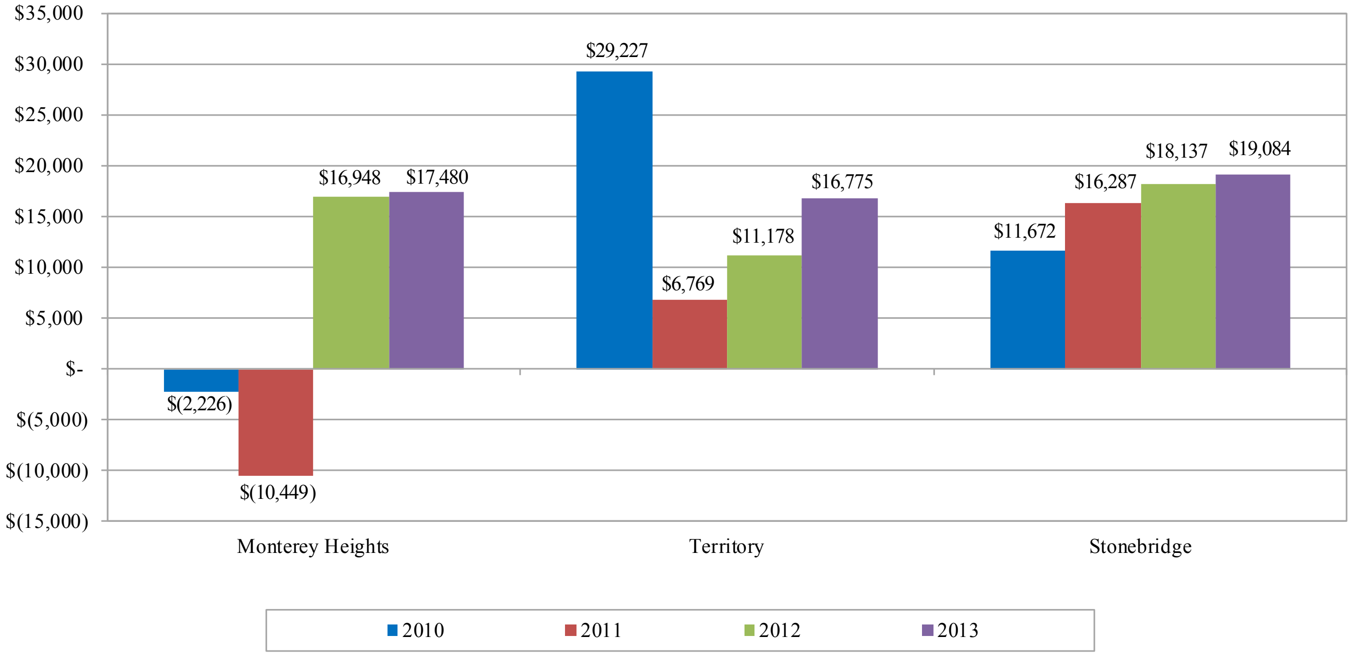
Annual Cash Increase/Decrease of Districts



- Monterey Heights/South Passage has an ending net position of $239,486, $83,838 of which is restricted for future capital purchases. The current year operating income amount is $11,029. The cash balance in the district is sufficient cover roughly five months of expenditures.

- Territory district has an ending net position of $2,191,693, $74,822 of which is restricted for future capital purchases. The cash balance is sufficient to cover roughly five months of operating expenses. The ending cash balance of the district increased $11,178 and $16,775 in 2012 and 2013, respectively. This is also the second consecutive year the district has received capital contributions from developers. The district received $1,325,380 and $814,680 in 2012 and 2013, respectively.

- Stonebridge district has an ending net position of $357,246**,** $29,210 of which is restricted for future capital purchases. The cash balance in the district is sufficient and enough to cover more than one year’s worth of expenditures**.**

Future Accounting Standard Changes

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

GASB Statement No. 67 - The Financial Reporting for Pension Plans- an Amendment to GASB Statement No. 25

Summary

The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions 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. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The comparability of the reported information for similar types of pension plans will be improved by the changes related to the attribution method used to determine the total pension liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due.

Future Accounting Standard Changes - Continued

GASB Statement No. 68 - The Accounting and Financial Reporting of Pensions- an Amendment of GASB Statement No. 27

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement is effective for fiscal years beginning after June 15, 2014. 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 net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

GASB Statement No. 69 - *Government Combinations and Disposals of Government Operations*

Summary

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.
This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, Business Combinations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

Future Accounting Standard Changes - Continued

GASB Statement No. 70 - *Accounting and Financial Reporting for Nonexchnage Financial Guarantees*

Summary

Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee may be applied prospectively.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

Future Accounting Standard Changes - Continued

GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measure Date - an Amendment of GASB Statement No. 68*

Summary

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

[1] *Note*. From GASB Pronouncements Summaries. Copyright 2014 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

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This communication is intended solely for the information and use of the Board, management and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

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

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
February 17, 2014

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