# Management Letter

Independent School District No. 2144
Lindstrom, Minnesota

For the Year Ended
June 30, 2018

ABDO EICK & MEYERS LLP
*Certified Public Accountants & Consultants*

People + Process. Going Beyond the Numbers

ABDO
EICK &
MEYERS LLP
*Certified Public Accountants & Consultants*

December 12, 2018

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 2144 (the District), Lindstrom, Minnesota for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 13, 2018. Professional standards also require that we communicate to you the following information related to our audit.

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

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

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

**Significant Audit Findings**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

5201 Eden Avenue, Suite 250
Edina, MN 55436
952.835.9090 | Fax 952.835.3261

**Compliance**

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

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements The District changed accounting policies during 2018 related to accounting and financial reporting for other postemployment benefits (GASB 74 and 75). We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recorded in the financial statements in the proper period except for the prior period restatement in Note 8.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant estimates affecting the financial statements include depreciation on capital assets, receivables from the Minnesota Department of Education (MDE), and the liability for the District's pensions and other postemployment benefits (OPEB).

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

- Management estimates a portion of the receivable from the Department of Education on student numbers and past expenditures.

- Management's estimate of its portion of the District's net pension liabilities related to its proportionate share of TRA and PERA pensions (assets) are based on the District's contributions in relation to all contributions to each plan as a whole. The overall net pension liability for TRA and PERA are based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, survivor life expectancy, and high-five salary.

- Management's estimate of its OPEB liability is based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, turnover, and healthcare cost trend rate.

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

**Difficulties Encountered in Performing the Audit**

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

**Corrected and Uncorrected Misstatements**

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

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

**Management Representations**

We have requested certain representations from management that are included in the management representations letter dated December 12, 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 District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Matters**

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

We were engaged to report on the supplementary information (combining and individual fund financial statements, schedules and table and the Schedule of Expenditures of Federal Awards), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompany the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

**Financial Position and Results of Operations**

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the District's financial statements for the year ended June 30, 2018.

**General Fund**

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

| | Final Budgeted Amounts | Actual Amounts | Variance With Final Budget |
|---|---|---|---|
| Revenues | $ 39,046,823 | $ 39,202,945 | $ 156,122 |
| Expenditures | 38,816,823 | 40,112,765 | (1,295,942) |
| Excess (Defeciency) of Revenues Over (Under) Expenditures | 230,000 | (909,820) | (1,139,820) |
| Fund Balances, July 1 | 3,284,366 | 3,284,366 | - |
| Fund Balances, June 30 | $ 3,514,366 | $ 2,374,546 | $ (1,139,820) |

- Revenues from local property tax levies were $381,914 more than expected while revenues from state sources were $464,186 under budget.
- Within expenditures, the district support services function had the most significant positive variance of $141,551.
- The largest negative expenditure variances were in vocational education instruction and special education instruction current expenditures, which were $314,033 and $652,597 more than anticipated, respectively. In vocational education instruction this was largely a result of salaries in excess of budget by $217,791. In the special education function, salaries had a negative variance of $351,242, and purchased services had a negative variance of $233,630.

It is important for the District to maintain a fund balance at a level sufficient to fund working capital needs and to provide some cushion for unforeseen expenditures. A useful guide to an appropriate level is the percent of fund balance to expenditures. We recommend a fund balance of around 8.0 to 16.0 percent (one to two months) of planned expenditures. At year end, the total General fund balance is 5.9 percent of 2018 expenditures compared to 8.6 percent of 2017 expenditures.

Listed below is an analysis of unassigned fund balances for 2018 and 2017:

| | 2018 | | |
|---|---|---|---|
| Components of the General Fund | Total Unassigned Fund Balances | Total Expenditures | Percent of Expenditures |
| General | $ (448,095) | $ 36,161,963 | (1.24) % |
| Pupil Transportation | 65,028 | 2,282,742 | 2.85 |
| Capital Expenditures | - | 1,668,060 | - |
| Total | $ (383,067) | $ 40,112,765 | (0.95) |

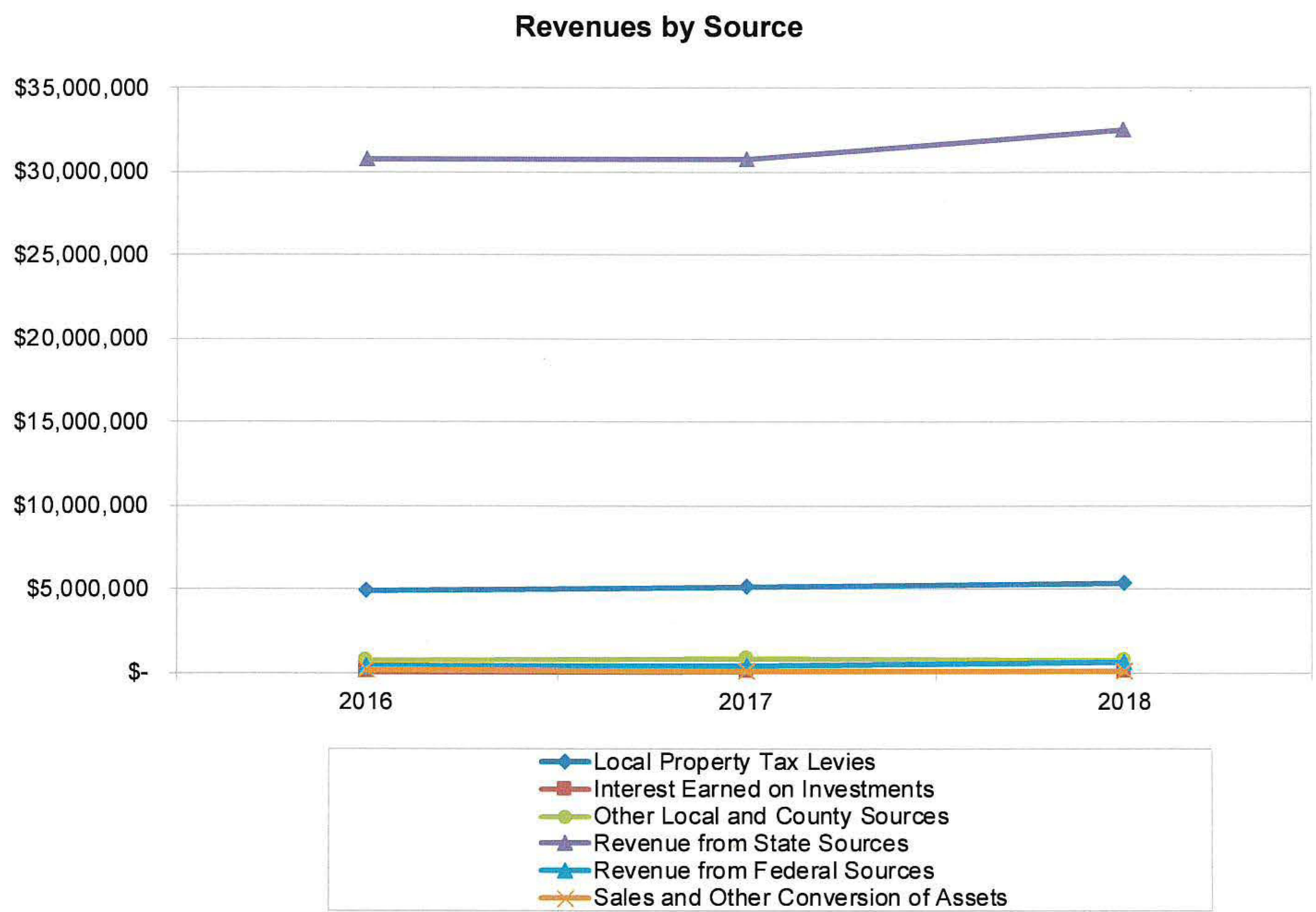
| | 2017 | | |
|---|---|---|---|
| Components of the General Fund | Total Unassigned Fund Balances | Total Expenditures | Percent of Expenditures |
| General | $ (382,338) | $ 33,972,848 | (1.13) % |
| Pupil Transportation | 477,911 | 2,096,464 | 22.80 |
| Capital Expenditures | - | 2,015,082 | - |
|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

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

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

| Revenue Source | 2016 | 2017 | 2018 | Per ADM |
|---|---|---|---|---|
| Local Property Tax Levies | $ 4,871,056 | $ 5,113,870 | $ 5,300,344 | $ 1,567 |
| Interest Earned on Investments | 12,193 | 41,197 | 57,377 | 17 |
| Other Local and County Sources | 713,152 | 865,789 | 775,306 | 229 |
| Revenue from State Sources | 30,741,335 | 30,772,400 | 32,489,903 | 9,604 |
| Revenue from Federal Sources | 377,068 | 368,484 | 567,793 | 168 |
| Sales and Other Conversion of Assets | 213,555 | 74,400 | 12,222 | 4 |
| Total Revenues | $ 36,928,359 | $ 37,236,140 | $ 39,202,945 | $ 11,589 |

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



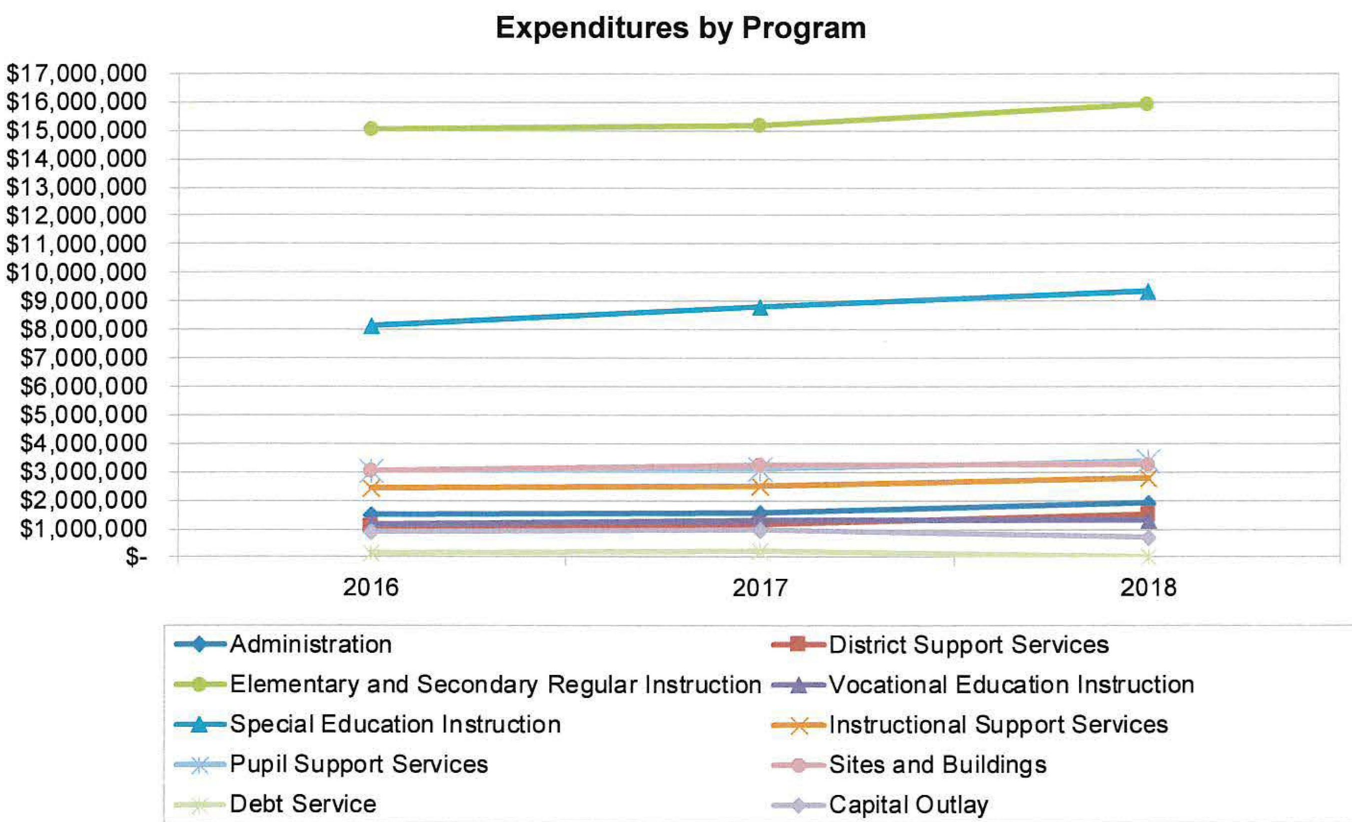



People + Process. Going Beyond the Numbers

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

| Program | 2016 | 2017 | 2018 | 2018 Per ADM | 2017 Per ADM |
|---|---|---|---|---|---|
| Administration | $ 1,535,201 | $ 1,602,787 | $ 1,910,965 | $ 565 | $ 480 |
| District Support Services | 1,114,543 | 1,144,679 | 1,514,094 | 448 | 343 |
| Elementary and Secondary Regular Instruction | 15,017,597 | 15,205,565 | 15,912,736 | 4,704 | 4,557 |
| Vocational Education Instruction | 1,197,063 | 1,277,354 | 1,317,013 | 389 | 383 |
| Special Education Instruction | 8,154,730 | 8,796,588 | 9,359,401 | 2,767 | 2,636 |
| Instructional Support Services | 2,436,975 | 2,514,792 | 2,751,420 | 813 | 754 |
| Pupil Support Services | 3,055,506 | 3,112,145 | 3,382,059 | 1,000 | 933 |
| Sites and Buildings | 3,020,625 | 3,218,945 | 3,243,111 | 959 | 965 |
| Debt Service | 166,327 | 245,122 | 6,409 | 2 | 73 |
| Capital Outlay | 900,990 | 966,417 | 715,557 | 212 | 290 |
| Other Financing Uses | - | - | - | - | - |
| Total Expenditures | $ 36,599,557 | $ 38,084,394 | $ 40,112,765 | $ 11,859 | $ 11,414 |
| Total Debt Service Expenditures | $ 3,193,666 | $ 3,209,077 | $ 4,165,023 | $ 1,231 | $ 962 |

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




People + Process. Going Beyond the Numbers

**Special Revenue Funds**

This group of funds includes Food Service and Community Service.

*Food Service Fund*

| | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|---|---|---|---|
| Revenues | $ 1,667,987 | $ 1,819,613 | $ 151,626 |
| Expenditures | 1,640,899 | 1,752,745 | (111,846) |
| Net Change in Fund Balances | 27,088 | 66,868 | 39,780 |
| Fund Balances, July 1 | 41,024 | 41,024 | - |
| Fund Balances, June 30 | $ 68,112 | $ 107,892 | $ 39,780 |

The most significant negative expenditure variance was in supplies and materials, coming in $102,609 higher than budget. The largest revenue variance was revenue from federal sources which was $107,710 over budget.

*Community Service Fund*

| | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|---|---|---|---|
| Revenues | $ 1,800,736 | $ 1,954,779 | $ 154,043 |
| Expenditures | 1,715,956 | 1,913,796 | (197,840) |
| Net Change in Fund Balances | 84,780 | 40,983 | (43,797) |
| Fund Balances, July 1 | 760,559 | 760,559 | - |
| Fund Balances, June 30 | $ 845,339 | $ 801,542 | $ (43,797) |

The largest revenue variance was related to other local and county revenue which was $118,882 over budget, primarily a result of increased participation in before and after school child care and increased summer participants. The most significant expenditure variances were related to salaries which were $168,248 over budget, respectively.

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

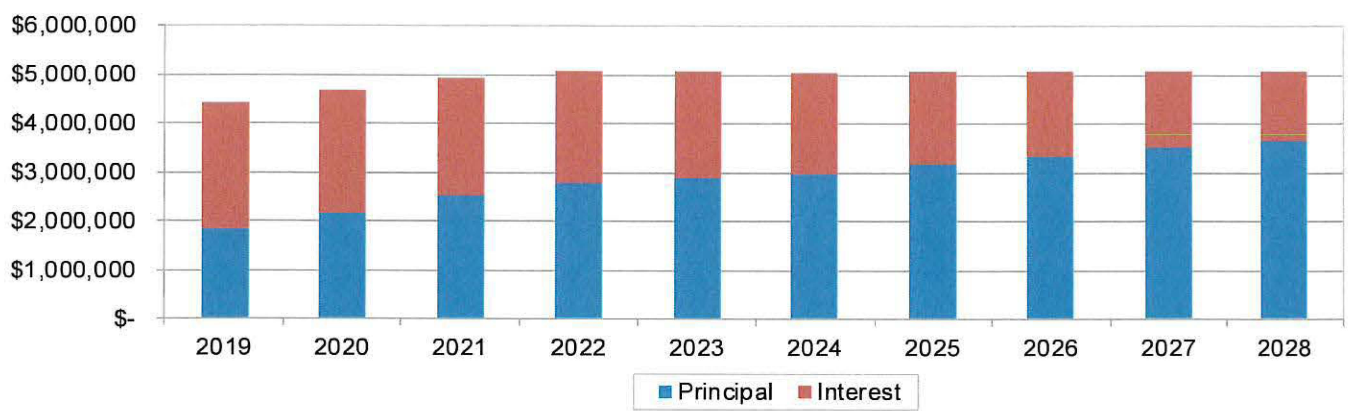
| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nonspendable | | | | | |
| Prepaid items | $ 11,022 | $ 10,481 | $ 8,549 | $ 11,864 | $ 15,455 |
| Restricted for | | | | | |
| Community education | 290,194 | 364,439 | 405,715 | 269,162 | 248,419 |
| Early childhood family education | - | 36,888 | 65,433 | 88,187 | 126,631 |
| School readiness | - | - | 10,965 | 50,801 | 93,243 |
| Adult basic education | 13 | - | - | - | - |
| Community service | | | | | |
| Separation/retirement benefits | 150,037 | 159,790 | 164,698 | 340,545 | 317,794 |
| Unassigned | (11,116) | (13,599) | - | - | - |
| Total | $ 440,150 | $ 557,999 | $ 655,360 | $ 760,559 | $ 801,542 |

**Debt Service**

The Debt Service fund has a fund balance of $680,357 remaining at June 30, 2018. All resources of the debt fund are to be used for the following bond issues:

| Title | Issue Date | Interest Rate | Original Issue | Final Maturity | Due Within One Year | Balance 06/30/18 |
|---|---|---|---|---|---|---|
| G.O. School Building Bonds, Series 2013A | 11/06/13 | 4.00 % | $ 8,905,000 | 02/01/23 | $ 995,000 | $ 5,395,000 |
| G.O. School Building Bonds, 2017A | 08/03/17 | 3.90 - 4.00 | 61,680,000 | 02/01/38 | 850,000 | 61,680,000 |
| G.O. School Building Bonds, 2018A | 03/29/18 | 3.00 - 3.10 | 3,730,000 | 02/01/26 | - | 3,730,000 |
| Total | | | | | | $ 70,805,000 |
| | | | | Total Remaining Interest Payments | | $ 27,918,614 |

The graph below represents the future principal and interest payments through fiscal year 2028. The debt payments on the District's outstanding debt are required to be funded primarily by property taxes. We recommend management pay particular attention to annual tax levies listed in each bond issue book to ensure proper funding of debt service.






People + Process. Going Beyond the Numbers

## Future Accounting Standard Changes

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

**GASB Statement No. 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.

## Future Accounting Standard Changes (Continued)

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.

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.

**Future Accounting Standard Changes (Continued)**

**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. 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.

**How the Changes in This Statement Will Improve Financial Reporting**

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.

**GASB Statement No. 88** - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

**Summary**

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

## Future Accounting Standard Changes (Continued)

### Effective Date and Transition

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

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.

**GASB Statement No. 89** - *Accounting for Interest Cost Incurred before the End of a Construction Period*

### Summary

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

### Effective Date and Transition

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

### How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities.

**GASB Statement No. 90** - *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*

### Summary

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

**Future Accounting Standard Changes (Continued)**

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

**Effective Date and Transition**

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

**How the Changes in This Statement Will Improve Financial Reporting**

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. In addition, requiring reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit.

**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.



* * * * *

**Restriction on Use**

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

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

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
December 12, 2018

People + Process. Going Beyond the Numbers