Management Letter

Independent School District No. 2895
Jackson, 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

October 11, 2018

Management and the Members of the School Board
Independent School District No. 2895
Jackson, 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. 2895, (the District) for the year ended June 30, 2018. 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 July 10, 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*

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 accordance with accounting principles generally accepted in the United States of America and *Government Auditing Standards.* 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

100 Warren Street, Suite 600
P.O. Box 3166
Mankato, MN 56002-3166
507.625.2727 | Fax 507.388.9139

Compliance and Other Matters

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 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, and accordingly, we do not express such an opinion. 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 two instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* or statutes set forth by the State of Minnesota and the *Manual of Instruction for Uniform Student Activities Accounting for Minnesota School Districts and Area Vocational-Technical Collages.*

2018-001 **Contracting and Bidding**

Condition: During our audit, we determined that the District did not have a contractor's payment or performance bond on file.

Criteria: Minnesota statute §471.345 sets certain requirements for contracts that exceed certain thresholds. In the District's case, the contracts were above $100,000, which requires contracts to be let on sealed bids through public notice. Certain documents relating to the bids need to be kept on-hand including affidavit of publication, bid tabulation, bids, payment bonds, performance bonds, bid bonds, certificate of insurance and contractors withholding affidavits.

Cause: It appears these items were requested but monitoring procedures were not in place to ensure the items above were recorded.

Effect: The District is out of compliance with Minnesota statute.

Recommendation: We recommend that the District review the statute and develop a set of procedures that will allow the District to be in compliance for all major contracts. We also recommend that the District keep an organized file of such information relating to bids.

Management Response:

There is no disagreement with this finding. The District will take action to avoid similar occurrences in the future.

2018-002 **Insufficient Signatures on Disbursement Checks - Student Activities**

Condition: During our audit, it came to our attention the District did not have the two signatures on disbursement checks.

Criteria: The Manual for Activity Fund Accounting (MAFA Manual) requires that all checks have two signatures.

Cause: During our audit, we found that all check did not have the required number of signatures.

Effect: Possible unauthorized disbursements.

Recommendation: Make sure each expenditure from a student activity fund has two signatures on the disbursement check.

Management Response:

There is not disagreement with this finding. The District will take action to avoid similar occurrence in the future.

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 requirements of GASB statements No. 75 were adopted for the fiscal year ending June 30, 2018. 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 recognized in the financial statements in the proper period. All significant transactions have been recognized in the financial statements in the proper period except for the prior period restatement in Note 7.

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 made relates to estimated historical cost of the capital assets, depreciation on capital assets and amounts receivable from the Minnesota Department of Education (MDE) and the liability for the District's pension and Other Postemployment Benefits (OPEB).

- Management's estimate of capital asset basis is based on estimated historical cost of the capital assets and depreciation is based on the estimated useful lives of capital assets.

- Management's estimate of amounts receivable from the Minnesota Department of Education are based on pupil unit data provided by MDE.

- 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 annuity payment upon retirement.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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 clearly 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.

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, which 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 representation letter dated October 11, 2018.

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 each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions and the Schedule of Changes in the School's Net OPEB Liability and Related Ratios), 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 and table), 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:

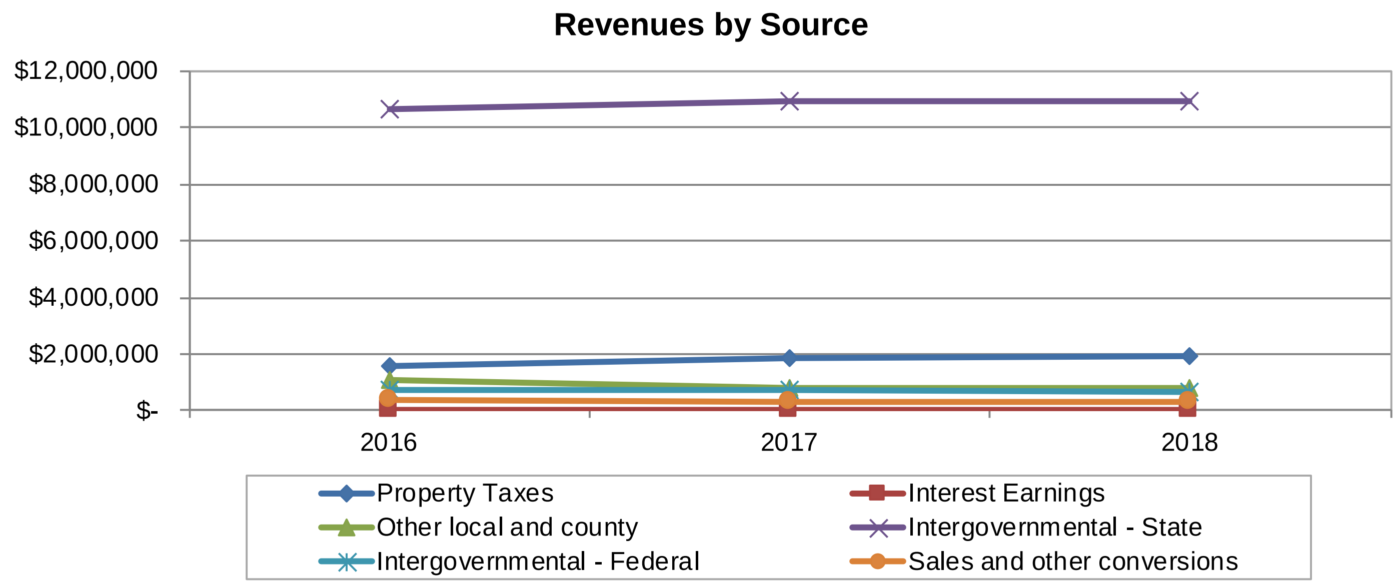
	Final Budget	Actual Amounts	Variance with Final Budget
Revenues	$ 13,030,930	$ 13,200,309	$ 169,379
Expenditures	13,533,800	13,381,660	152,140
Deficiency of Revenues Under Expenditures	(502,870)	(181,351)	321,519
Other Financing Sources			
Sale of assets	13,000	13,636	636
Net Change in Fund Balances	(489,870)	(167,715)	322,155
Fund Balances, July 1	2,111,689	2,111,689	-
Fund Balances, June 30	$ 1,621,819	$ 1,943,974	$ 322,155

- Revenue sources were over budget for fiscal year 2018 by $169,379. A positive variance is mainly due to revenue from other local and county revenue being over budget by $77,823 and revenues from State sources being over budget by $93,123.

- Expenditure programs were under budget for fiscal year 2018 by $152,140. This positive variance is mostly attributable to elementary and secondary regular instruction and special education instruction current expenditures. These programs were under budget by $78,781 and $31,005 respectively. Elementary and secondary regular instruction capital expenditures were under budget by $61,543.

A further breakdown of revenues by source for the past three years in the General, Food Service and Community Service funds is as follows:

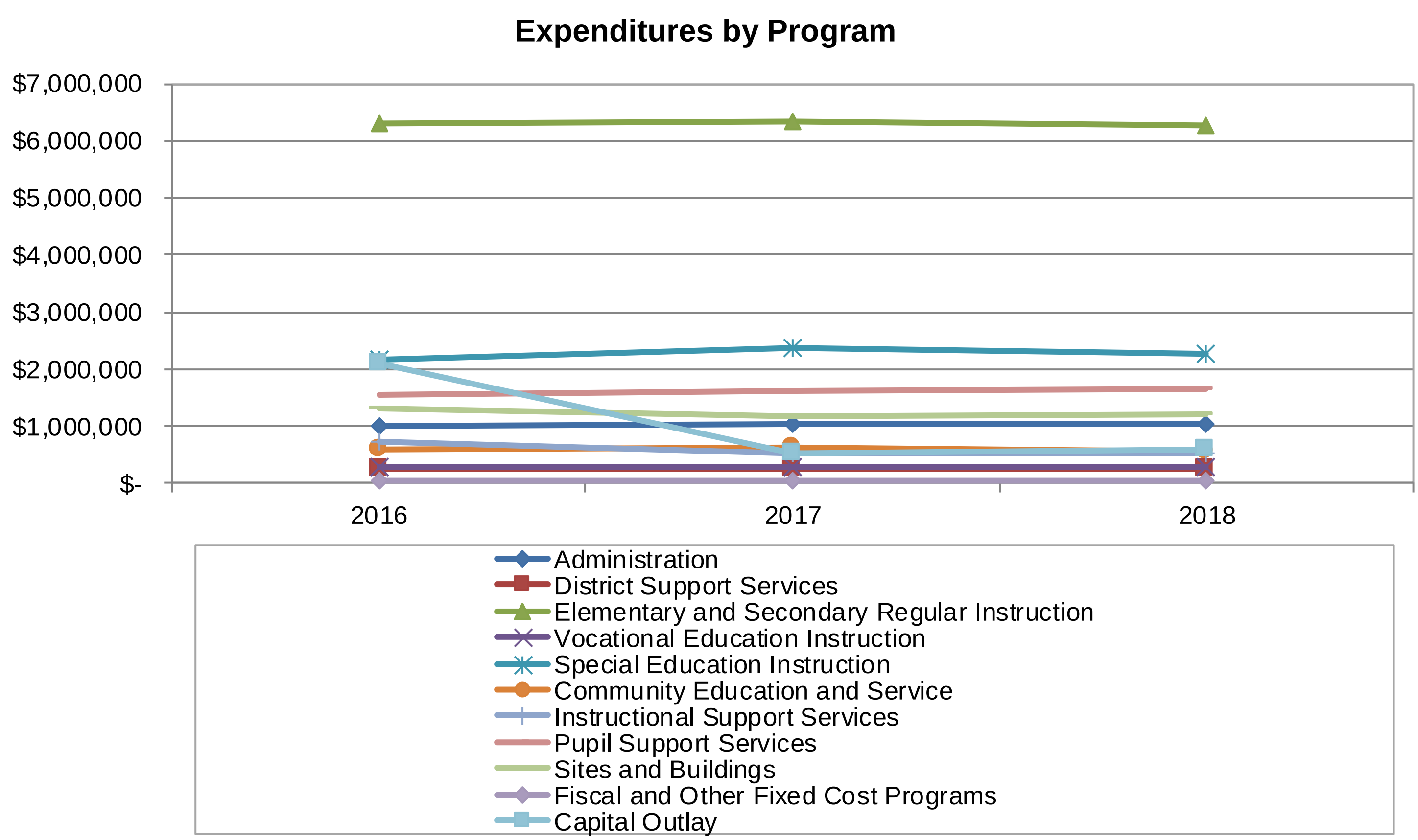
Revenue Source	2016	2017	2018	Per ADM
Property Taxes	$ 1,601,137	$ 1,826,028	$ 1,895,008	$ 1,648
Interest Earnings	6,491	12,916	21,724	19
Other Local and County	1,100,819	825,828	805,762	701
Intergovernmental - State	10,668,758	10,904,379	10,887,892	9,468
Intergovernmental - Federal	713,484	748,222	642,460	559
Sales and Other Conversions	368,506	334,769	313,914	273
Total Revenues	$ 14,459,195	$ 14,652,142	$ 14,566,760	$ 12,667



A further breakdown of expenditures by program for the past three years in the General, Food Service and Community Service funds is as follows:

Expenditures by Program	2016	2017	2018	2018 Per ADM	2017 Per ADM
Administration	$ 1,020,005	$ 1,041,052	$ 1,039,973	$ 938	$ 901
District Support Services	255,278	267,060	248,298	224	231
Elementary and Secondary Regular Instruction	6,295,996	6,326,628	6,254,699	5,640	5,473
Vocational Education Instruction	289,831	276,473	283,054	255	239
Special Education Instruction	2,168,026	2,361,712	2,285,255	2,061	2,043
Community Education and Service	588,739	631,901	575,905	519	547
Instructional Support Services	719,919	515,763	513,225	463	446
Pupil Support Services	1,563,288	1,617,811	1,642,302	1,481	1,399
Sites and Buildings	1,303,781	1,190,926	1,219,632	1,100	1,030
Fiscal and Other Fixed Cost Programs	54,437	61,877	63,487	57	54
Capital Outlay	2,109,575	528,207	581,506	524	457
Total Expenditures	$ 16,368,875	$ 14,819,410	$ 14,707,336	$ 13,262	$ 12,820

The above chart compares the amount the District spends per average daily membership (ADM) in comparison to the previous year's expenditures per ADM.



Food Service Special Revenue Fund

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

	Final Budget	Actual Amounts	Variance with Final Budget
Revenues	$ 759,000	$ 746,369	$ (12,631)
Expenditures	758,140	736,222	21,918
Net Change in Fund Balances	860	10,147	9,287
Fund Balances, July 1	221,040	221,040	-
Fund Balances, June 30	$ 221,900	$ 231,187	$ 9,287

The fund experienced an increase in fund balance during the year due to revenues exceeding expenditures. The District should have a minimum of one-month reserve in fund balance for this fund. This level would indicate fund balance should be around $61,000.

Community Service Special Revenue Fund

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

	Final Budget	Actual Amounts	Variance with Final Budget
Revenues	$ 612,990	$ 620,082	$ 7,092
Expenditures	604,780	589,454	15,326
Net Change in Fund Balances	8,210	30,628	22,418
Fund Balances, July 1	6,240	6,240	-
Fund balances, June 30	$ 14,450	$ 36,868	$ 22,418

The fund balance increased during the year due to revenues exceeding expenditures. As previously stated, the District should try to maintain a minimum fund balance of one-month reserve in fund balance for this type of fund. This level would indicate fund balance should be around $49,000.

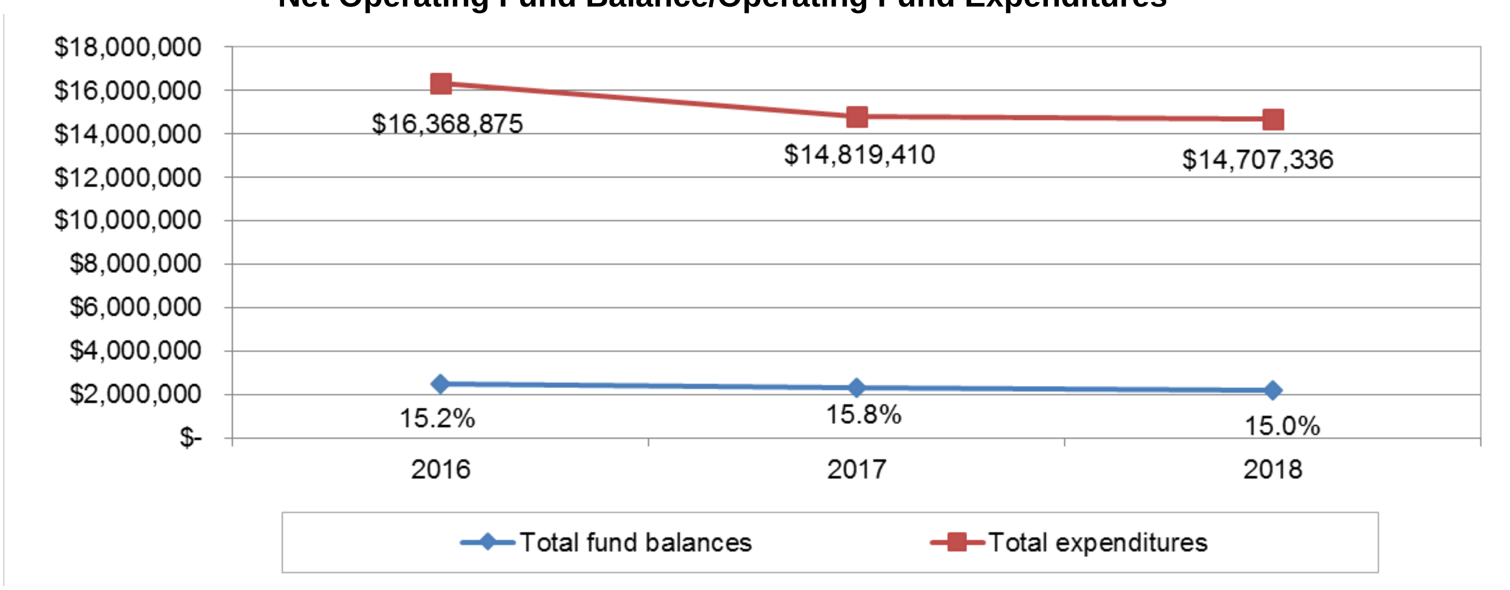
Fund Balances - Operating Funds

The fund balances of the operating funds as of June 30 for the past three years were as follows:

Fund	2016	2017	2018
General	$ 2,289,380	$ 2,111,689	$ 1,943,974
Food Service	164,518	221,040	231,187
Community Service	34,661	6,240	36,868
Total Fund Balances	$ 2,488,559	$ 2,338,969	$ 2,212,029

Fund	2016	2017	2018
General	$ 15,082,058	$ 13,460,182	$ 13,381,660
Food Service	685,146	719,920	736,222
Community Service	601,671	639,308	589,454
Total Expenditures	$ 16,368,875	$ 14,819,410	$ 14,707,336
Net Operating Fund Balances as a Percent of Operating Fund Expenditures	15.2%	15.8%	15.0%
Average Daily Membership	1,196	1,156	1,109
Expenditure Per Pupil Unit - All Funds	$ 13,686	$ 12,820	$ 13,262
Expenditure Per Pupil Unit - General Fund	12,610	11,644	12,066

Net Operating Fund Balance/Operating Fund Expenditures



UFARS Fund Balance Analysis

	Balance June 30, 2017	Revenues	Expenditures	Transfers/ Other Sources (Uses)	Balance June 30, 2018
General Fund					
Nonspendable	$ 17,284	$ 40,698	$ -	$ -	$ 57,982
Restricted for staff development	6,076	155,823	147,824	-	14,075
Restricted for health and safety	256,153	8,483	-	-	264,636
Restricted for operating capital	51,125	349,627	311,914	-	88,838
Restricted for learning and development	-	255,803	262,600	6,797	-
Restricted for gifted and talented	-	16,368	26,194	9,826	-
Restricted for basic skills	-	522,254	742,126	219,872	-
Restricted for career and technical program	-	88,112	279,452	191,340	-
Restricted for achievement and integration	2,056	116,001	118,057	-	-
Restricted for safe schools	(129,594)	48,880	7,789	-	(88,503)
Restricted for long term facility maintenance	22,705	365,898	357,412	-	31,191
Restricted for medical assistance	32,032	72,533	72,883	-	31,682
Unassigned	1,853,852	11,159,829	11,055,409	(414,199)	1,544,073
Total Fund Balance	$ 2,111,689	$ 13,200,309	$ 13,381,660	$ 13,636	$ 1,943,974
Food Service Fund					
Nonspendable	$ 14,681	$ -	$ 8,270	$ -	$ 6,411
Restricted for food service	206,359	746,369	727,952	-	224,776
Total Fund Balance	$ 221,040	$ 746,369	$ 736,222	$ -	$ 231,187
Community Service Fund					
Restricted for community education	$ (32,177)	$ 195,967	$ 184,321	$ -	$ (20,531)
Restricted for early childhood family education	21,736	53,293	54,609	-	20,420
Restricted for school readiness	9,964	196,325	163,398	-	42,891
Restricted for community service	6,629	18,182	18,937	-	5,874
Restricted for pool	88	156,315	168,189	11,786	-
Unassigned	-	-	-	(11,786)	(11,786)
Total Fund Balance	$ 6,240	$ 620,082	$ 589,454	$ -	$ 36,868
Debt Service Fund					
Restricted for debt service	$ 261,458	$ 1,399,019	$ 1,395,300	$ -	$ 265,177
Private Purpose Trust Fund					
Held in trust for scholarships	$ 2,366	$ 19	$ 100	$ -	$ 2,285

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.

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.

People + Process® Going Beyond the Numbers

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.

How the Changes in This Statement Will Improve Financial Reporting

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

Future Accounting Standard Changes (Continued)

GASB Statement No. 87 - *Leases*

Summary

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

Effective Date and Transition

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

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

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

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

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.

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 members of the School Board, management and others within the administration of the District, 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.

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

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
October 11, 2018

People + Process. Going Beyond the Numbers