anderson ZURMUEHLEN

ANDERSON ZURMUEHLEN & CO., P.C. • CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

129 WEST PARK, SUITE 201 • P.O. BOX 748 • BUTTE, MONTANA 59703-0748
TEL: 406.782.0451 • FAX: 406.782.1819 • WEB: www.azworld.com

To the Board of Directors
District IV Human Resources and Development Council

We have audited the financial statements of District IV Human Resources and Development Council (the Council) for the year ended June 30, 2019, and have issued our report thereon dated November 12, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and 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 to you in our letter to you dated July 19, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Council are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Council adopted accounting standards update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* in 2019. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

> The most sensitive estimates affecting the financial statements were management's estimates of depreciation expense and accrued annual leave expense. 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 financial statement disclosures are neutral, consistent, and clear.

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 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. A listing of adjustments is attached to this letter.

Disagreements with Management
For purposes of this letter, a disagreement with management is 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 representation letter dated November 12, 2019.

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 Council'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 Council'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

<u>Supplementary information</u>
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 U.S. generally accepted accounting principles, 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.

<u>On the Horizon</u>
As part of our responsibility as your independent auditor, we attempt to bring to your attention observations and suggestions to assist you in managing the continued growth in the Entity. The following describe significant upcoming changes in accounting standards that will affect how the Council will report its activity.

Accounting for Grants and Contributions
In June 2018, FASB issued Accounting Standards Update (ASU) No. 2018-08, *Revenue Recognition of Grants and Contracts by Not-for-Profit Entities*. This standard clarifies when a transfer of cash or other assets received and made, primarily by not-for-profits, qualifies as a contribution or an exchange transaction.

Specifically, the ASU establishes criteria for determining whether the asset provider is receiving commensurate value in return for assets transferred. That determination then dictates whether the organization follows contribution guidance or exchange transaction guidance found in the revenue recognition standard. The new guidance is expected to be particularly helpful in the accounting for grants and similar contracts awarded by governments to not-for-profits.

The provisions of this standard, for not-for-profits that do not serve as a conduit debt obligor for publicly-traded securities, will apply to annual reporting periods beginning after December 15, 2018, or fiscal year 2020.

Revenue Recognition
In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. This revenue recognition standard affects all entities—public, private, and not-for-profit—that have contracts with customers.

The new revenue recognition standard eliminates the transaction- and industry-specific revenue recognition guidance under current GAAP and replaces it with a principle-based approach for determining revenue recognition.

In 2015, FASB amended the ASU to defer the implementation dates of this standard. Non-public companies and not-for-profits will apply the guidance to annual reporting periods beginning after December 15, 2018, thus becoming effective for the Council in fiscal year 2020.

The objective of the new guidance is to establish the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The new guidance was established to:

- Remove inconsistencies and weaknesses in existing revenue requirements
- Provide a more robust framework for addressing revenue issues
- Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets
- Provide more useful information to users of financial statements through improved disclosure requirements, and
- Simplify the preparation of financial statements by reducing the number of requirements to which an organization must refer.

The core principle of this standard is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The new standard will change how to account for the costs of obtaining a contract and the costs to fulfill a contract. In addition, there are enhanced disclosure requirements that require information about the nature, amount, timing, and uncertainty of revenue and cash flows.

Accounting for Leases
In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Accounting for Leases*. This standard will be effective for fiscal years beginning after December 15, 2019 for non-public companies and not-for-profit entities, thus will be effective for the Council in fiscal year 2022. Early planning for this new standard will help with implementation.

The new standard applies a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases longer than 12 months. Leases will be classified as either finance or operating, with classification affecting how the expense is recognized on the income statement. Finance leases will result in a “front-loaded” expense by amortizing the payments and recording interest over the lease term, while operating leases will result in a straight-line expense over the lease term.

This new treatment could take many of your current leases that can be considered operating, and require that they be added to your balance sheet as both an asset and a liability, including the many current related party leases you have in place. Only those leases noted above that are under 12-months can be recorded as a “short-term lease”. This is how the old model operating leases would have been recorded without recording the above asset and liability.

There are also additional requirements from the lessor side. The new standard requires a lessor to classify leases as either sales-type, finance or operating. This determination is similar to existing U.S. GAAP. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn’t convey risks and rewards or control, it is an operating lease.

This information is intended solely for the use of the Board of Directors and management of Council IV Human Resources and Development Council and is not intended to be, and should not be, used by anyone other than these specified parties.

Anderson ZurMuehlen + Co., P.C.

Butte, Montana
November 12, 2019

DISTRICT IV HUMAN RESOURCES DEVELOPMENT COUNCIL
SUMMARY OF CORRECTED MISSTATEMENTS
June 30, 2019

Account		Description	Debit	Credit
Depreciation	400-7605	To record FY19	3,443	
Accumulated Depreciation	400-0127	depreciation expense.		3,443
Depreciation	140-7605		2,137	
Accumulated Depreciation	140-0127			2,137
Depreciation	145-7605		3,000	
Accumulated Depreciation	145-0127			3,000
Depreciation	130-7605		11,509	
Accumulated Depreciation	130-0127			11,509
Depreciation	115-7605		18,915	
Accumulated Depreciation	115-0127			18,915
Depreciation	120-7605		77,746	
Accumulated Depreciation	120-0127			77,746
			90,546	90,546
Investment in fixed asset	120-0125	To capitalize FY19 assets.	5,650	
Supplies	568-7501			5,650
			96,196	96,196
Interest income	125-2552	Entry to reverse	17,475	
Interest receivable	125-0108	interest accrued.		17,475
			17,475	17,475