CliftonLarsonAllen LLP
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September 16, 2019

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

This Executive Audit Summary and Management Report presents information which we believe is important to you as members of the school board. We encourage you to review the sections of this report, the audited financial statements, and the auditors' reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the District for the courtesies, cooperation, and assistance extended to us during the course of our work.

CliftonLarsonAllen LLP

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Mary Reedy, CPA
Principal

GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2019

GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
TABLE OF CONTENTS
JUNE 30, 2019

EXECUTIVE AUDIT SUMMARY (EAS) FOR
INDEPENDENT SCHOOL DISTRICT NO. 2859
YEAR ENDED JUNE 30, 2019

We prepared this Executive Audit Summary and Management Report in conjunction with our audit of Independent School District No. 2859 (the District's) financial records for the year ended June 30, 2019.

Audit Opinion

The financial statements are fairly stated. We issued what is known as a "clean" audit report.

Internal Controls Over Financial Reporting

One material weakness in internal controls was identified.

Yellow Book Compliance Finding

There were no separate yellow book compliance findings reported.

Single Audit

There was one internal control over compliance finding noted in our testing of the Child Nutrition Cluster program related to controls over compliance with the District's cash management process over the CLiCS meals claimed.

Minnesota Legal Compliance

There was one Minnesota legal compliance finding for the fiscal year 2019 related to paying 1 invoice, out of the 25 tested, after 35 days of receiving that invoice.

Student Activity Funds

The student activity financial statements are prepared on the regulatory basis prescribed or permitted by the Minnesota Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements are fairly stated, except for such adjustments, if any, as might have been determined necessary had the cash collections been susceptible to satisfactory audit tests. This is what is known as an adverse opinion and is expected for audits of student activity funds.

There were no findings over compliance with the Manual for Activity Fund Accounting for fiscal year 2019.

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FORMAL REQUIRED COMMUNICATIONS

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 2859 (the District) as of and for the year ended June 30, 2019, and have issued our report thereon dated September 16, 2019. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Accounting Policies

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.

No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2019.

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.

Accounting Estimates

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:

- Due from Minnesota Department of Education
- Due from Federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Estimated severance benefits payable
- Total other postemployment benefits liability
- Net pension liability

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Management's estimate of the due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2019-19. The most significant of these is the aid portion of general education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a statewide database – MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2019 is not finalized until well into the next fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2018-19. Many federal entitlements require that supporting financial reporting information be provided both in the Uniform Financial Accounting and Reporting Standards (UFARS) accounting system and also the SERVS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

Management's estimate of severance benefits payable is based on certain assumptions made by the District as required by GASB 16. The District recorded a liability for accumulated sick leave convertible to severance pay for which it is probable the employees will be compensated. The method used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits and the potential use of sick leave prior to termination.

Management's estimate of total other postemployment benefits payable and related deferred inflows and deferred outflows of resources is based on assumptions provided and used in the actuarial valuation including: inflation, salary increases, health-care cost trend rates, and mortality rates. The projected benefit payments also include assumptions about retiree and spouse participation rates, and estimates related to the implicit rate subsidy, which is the estimated increased cost of premiums due to inclusion of retirees in the same plan as the District's active employees.

Management's estimate of the net pension liability and related deferred inflows and deferred outflows of resources is based on an actuarially determined calculation of the District's proportionate share of the net pension liability of cost-sharing multiple-employer pension plans sponsored by the Teachers Retirement Association and the Public Employees Retirement Association of Minnesota, in which the District participates.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Accounting Estimates (Continued)

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

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.

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.

Corrected Misstatements

None of the misstatements detected as a result of audit procedures and corrected by management are material, either individually or in the aggregate, to the financial statements taken as a whole.

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 auditors' report. No such disagreements arose during our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 16, 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 District's financial statements or a determination of the type of auditors' 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.

Significant Issues Discussed with Management Prior to Engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement 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 engagement.

Other Information in Documents Containing Audited Financial Statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated September 16, 2019.

With respect to the uniform financial reporting and accounting standards compliance table (the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, 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 or the reasons for such changes, 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 have issued our report thereon dated September 16, 2019.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
September 16, 2019

Board of Education
Independent School District No. 2859
Glencoe, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2859 (the District) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material Weaknesses

The following material weaknesses were identified and communicated in a prior period; remedial action has not yet been taken:

<u>Oversight of the Financial Reporting Process</u>

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP). The District does have a system of internal controls over the review of the financial statements. However, the District has not assumed full responsibility for a detailed review of the financial statements and for concluding the disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in entities of your size and is a result of management's cost benefit decision to rely on auditor expertise rather than incurring this internal resource cost. The design of internal controls over the financial reporting process affects the ability of the organization to report their financial data consistently with the assertions of management in the financial statements.

Material Weaknesses (Continued)

Student Activity Receipts

The District has not established accounting procedures to provide assurance that all cash collections are recorded in the accounting records. The District records student activity revenues on the cash basis and does not have an accounting system and internal controls in place to ensure student activity revenues and receipts have been properly recorded. The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the District’s internal controls. The accounting system and internal controls could be improved by (a) use of pre-numbered receipts with reconciliation of the numerical sequence; (b) reconciliation of merchandise purchased to items sold and items remaining at the end of the fundraiser; (c) calculation of expected sales compared to cash receipts; or various other procedures determined by management.

* * *

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
September 16, 2019

APPENDIX A

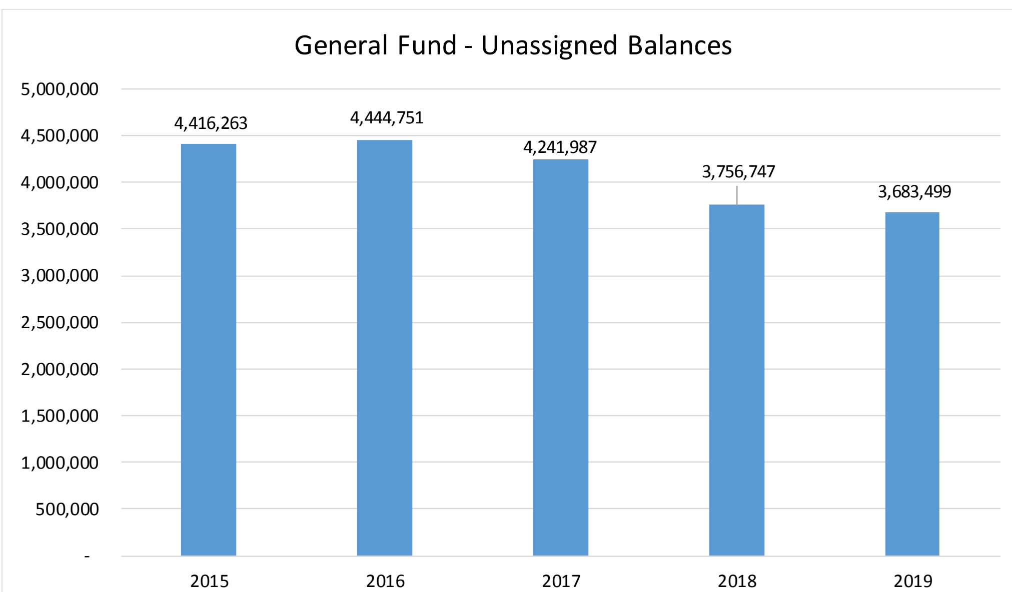
FINANCIAL TRENDS OF YOUR DISTRICT

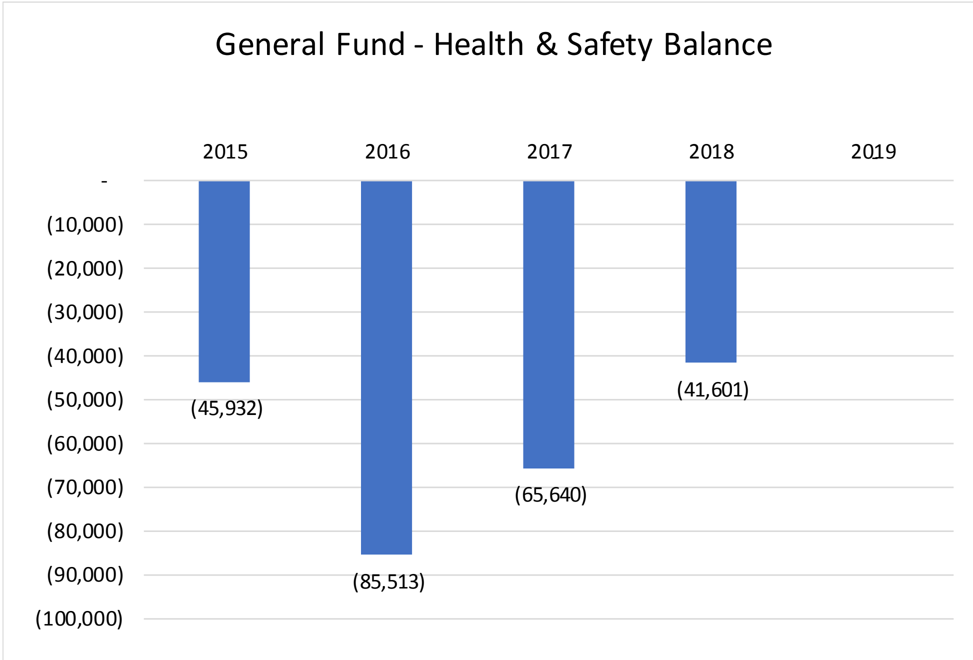
The following graphs reflect financial trends of Independent School District No. 2859. Information related to fund balances on pages 10 through 14 were obtained from current and prior year audit reports. Information from Independent School District No. 2859 has been included when appropriate for comparison purposes.

The graphs on pages 16 through 22 show expenditures per student served compared to the four most recent years, state averages and the averages for comparable size school districts (students served of 1,000 – 1,999). Prior year expenditure data and state wide averages were obtained from the Minnesota Department of Education. Current year expenditures were obtained from the current year's audit report.

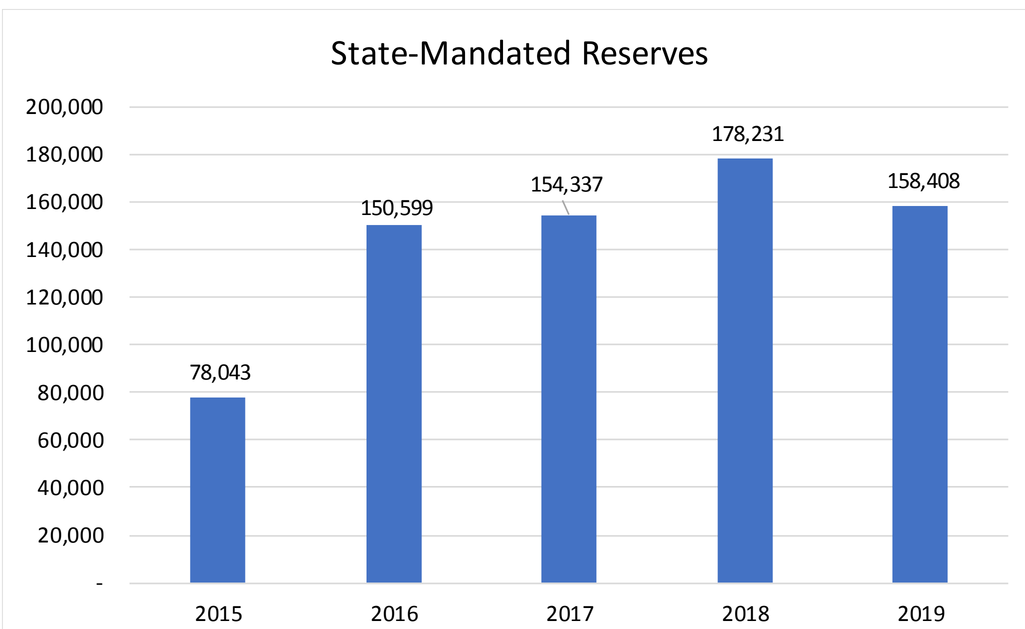
INDEPENDENT SCHOOL DISTRICT NO. 2859
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
YEAR ENDED JUNE 30, 2019

				Capital Related Restrictions				
	Nonspendable & Unassigned	Assigned	Noncapital Related Restrictions	Operating Capital	Health & Safety	Long-Term Facility Maintenance	Total	Grand Fund Total
Revenues and Other Financing Sources	$ 16,812,422	$ 400,000	$ 1,247,407	$ 410,788	$ 41,601	$ 674,687	$ 1,127,076	$ 19,586,905
Expenditures and Operating Transfers	16,492,586	-	1,267,230	542,006	-	67,280	609,286	18,369,102
Excess (Deficit) Revenues Over Expenditures	319,836	400,000	(19,823)	(131,218)	41,601	607,407	517,790	1,217,803
Fund Balance June 30, 2018	3,766,318	-	178,231	725,383	(41,601)	67,298	751,080	4,695,629
Restatement of Fund Balance	(392,060)	-	-	-	-	(674,705)	(674,705)	(1,066,765)
Fund Balance June 30, 2018, Restated	3,374,258	-	178,231	725,383	(41,601)	(607,407)	76,375	3,628,864
Fund Balance June 30, 2019	$ 3,694,094	$ 400,000	$ 158,408	$ 594,165	$ -	$ -	$ 594,165	$ 4,846,667

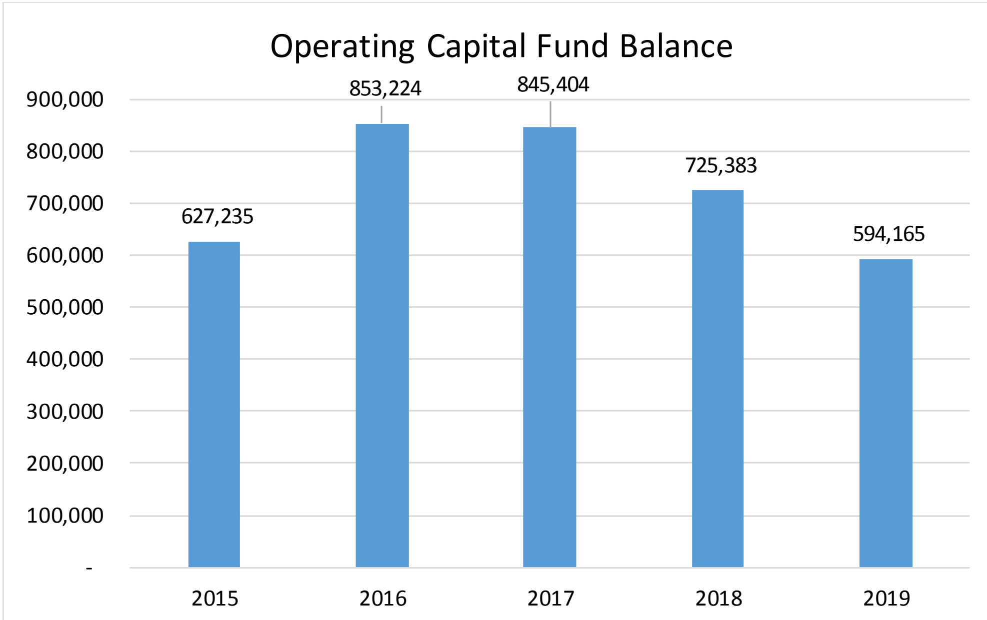


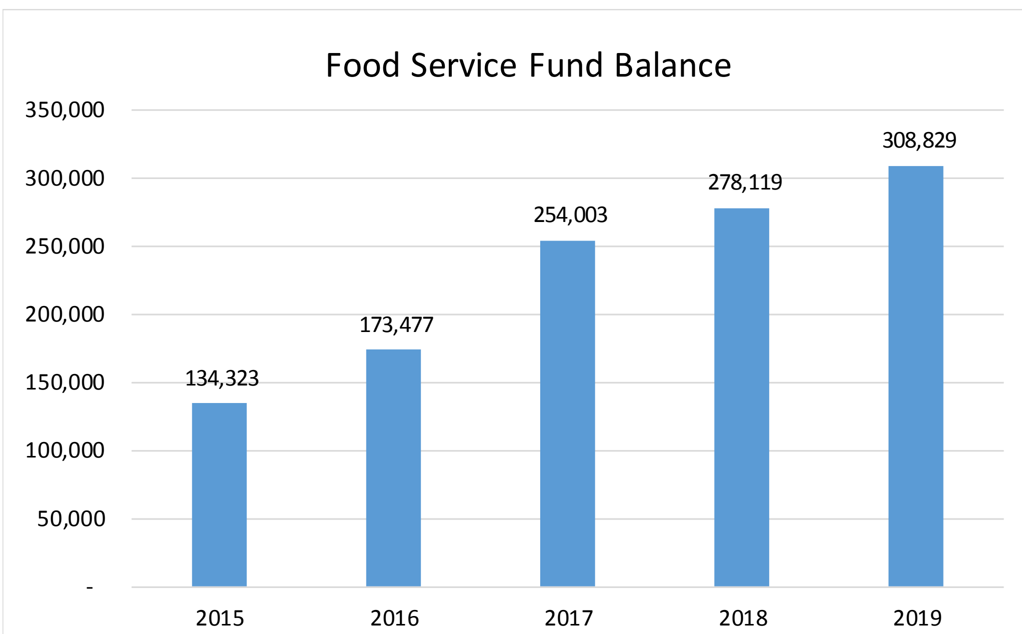


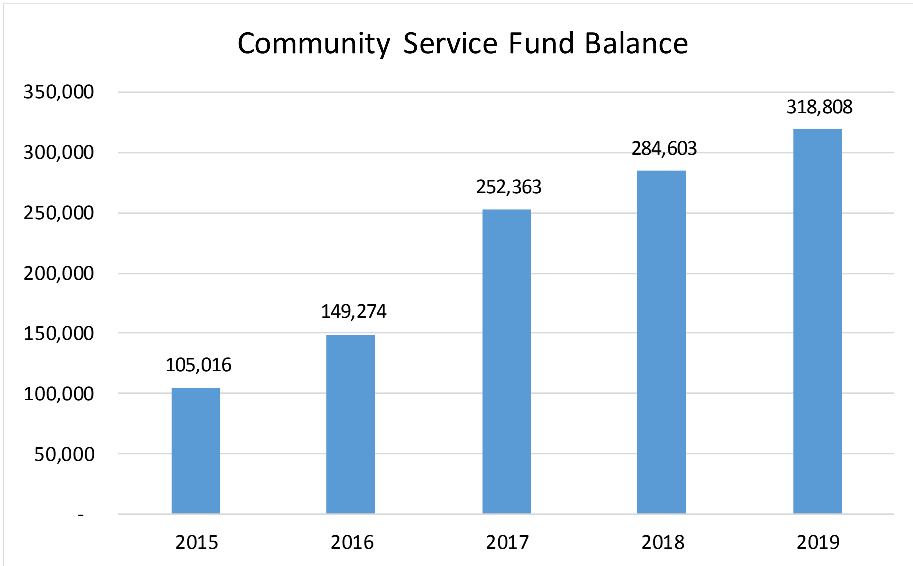
Create Opportunities 4



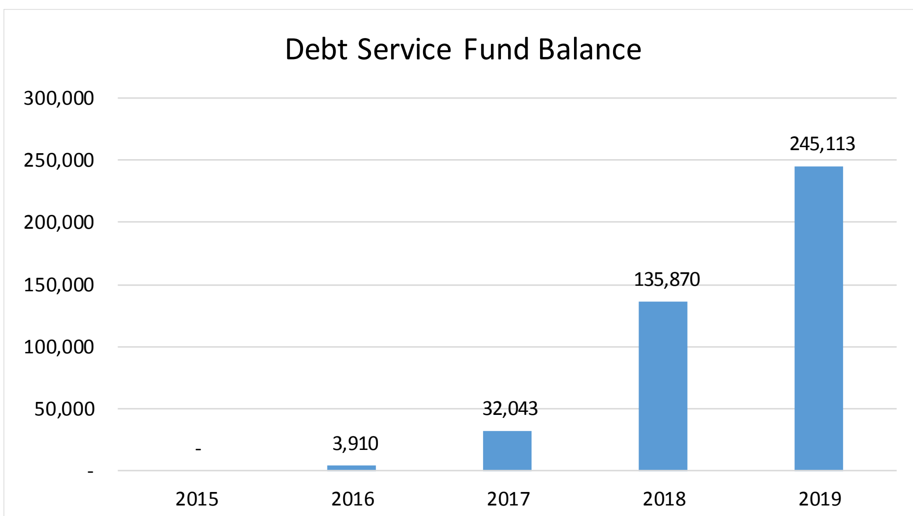
Create Opportunities 5


Operating Capital Fund Balance
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
627,235
853,224
845,404
725,383
594,165
2015
2016
2017
2018
2019

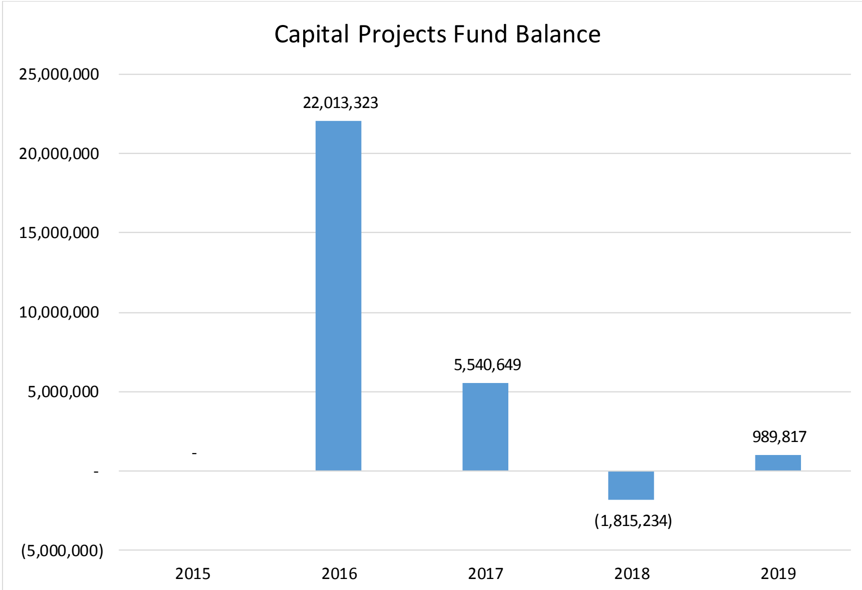

Food Service Fund Balance
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
134,323
173,477
254,003
278,119
308,829
2015
2016
2017
2018
2019

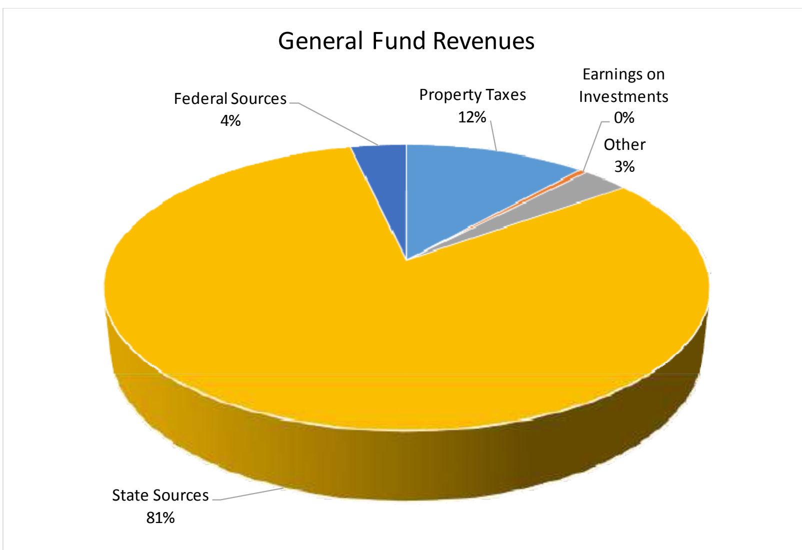


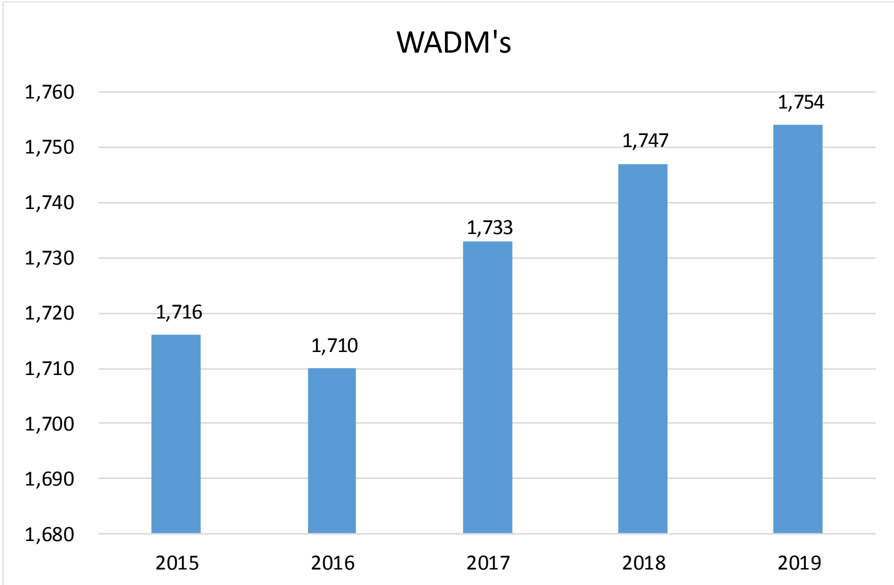
Community Service Fund Balance
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
105,016
149,274
252,363
284,603
318,808
2015
2016
2017
2018
2019



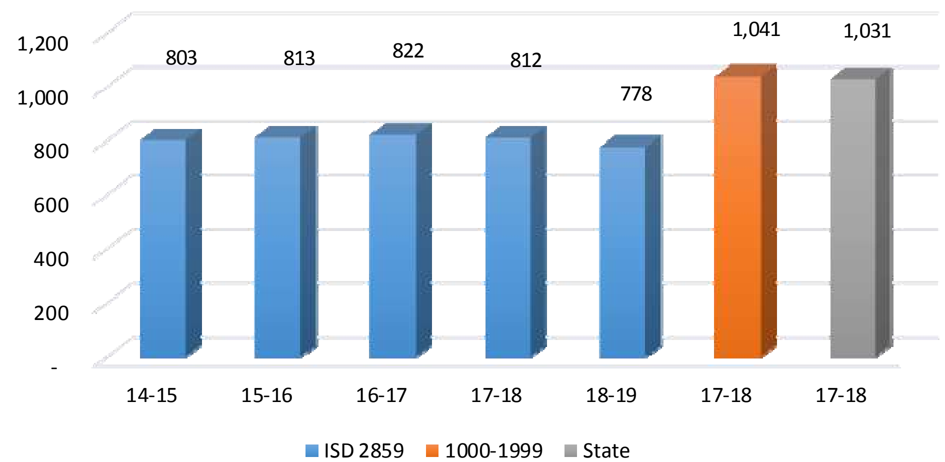
Debt Service Fund Balance
300,000
250,000
200,000
150,000
100,000
50,000
-
-
3,910
32,043
135,870
245,113
2015
2016
2017
2018
2019


Capital Projects Fund Balance
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
-
(5,000,000)
22,013,323
5,540,649
989,817
(1,815,234)
2015
2016
2017
2018
2019


General Fund Revenues
Federal Sources 4%
Property Taxes 12%
Earnings on Investments 0%
Other 3%
State Sources 81%

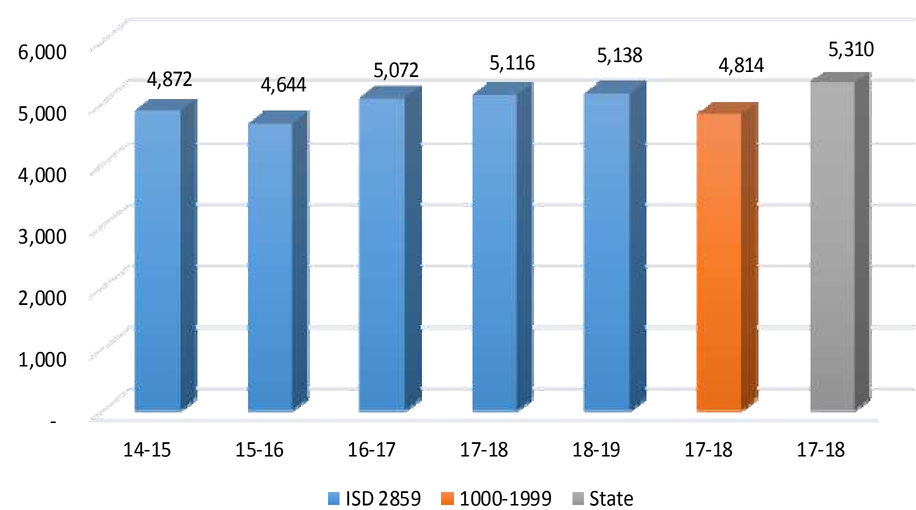

WADM's
1,760
1,750
1,740
1,730
1,720
1,710
1,700
1,690
1,680
1,716
1,710
1,733
1,747
1,754
2015
2016
2017
2018
2019

Districts & School Administration

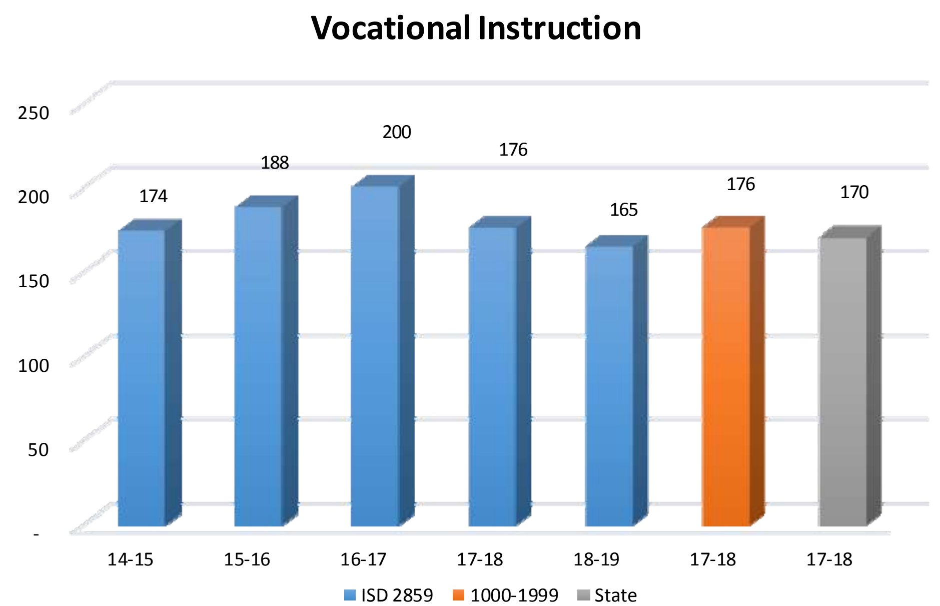


District and School Admin - all costs related to providing administration to the District (Board of Education, Superintendent, Principals, Line Administrators, etc.).

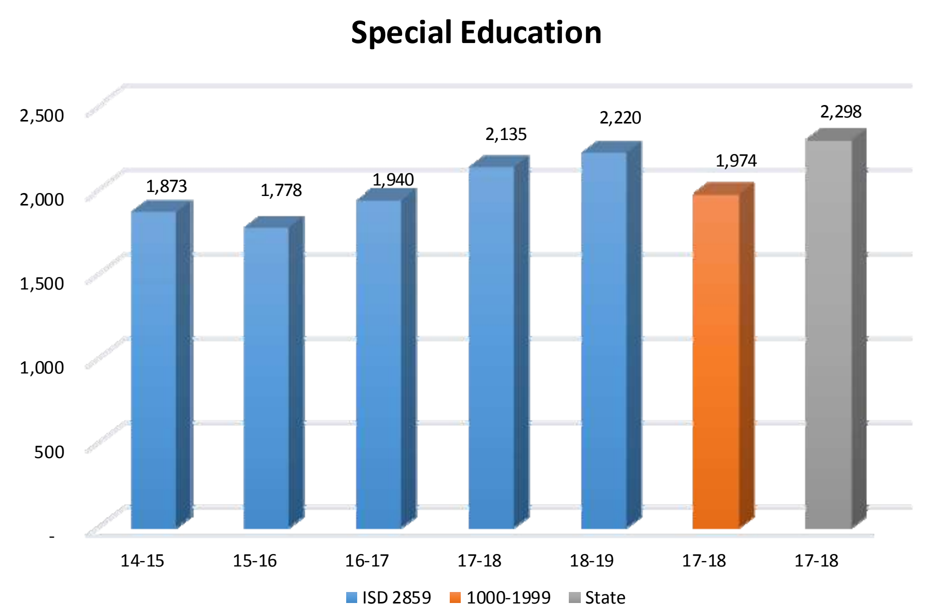
Regular Instruction



Regular Instruction - includes all activities dealing directly with the teaching of pupils including co-curricular and extra-curricular activities (excluding special ed, vocational and community education instruction).

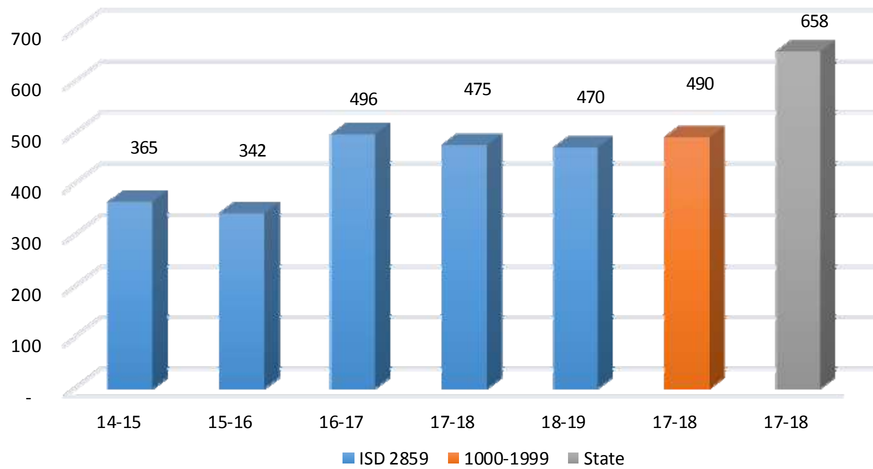


Vocational Instruction - consists of costs related to career exploration, job-entry skills, job upgrading, and occupational training.



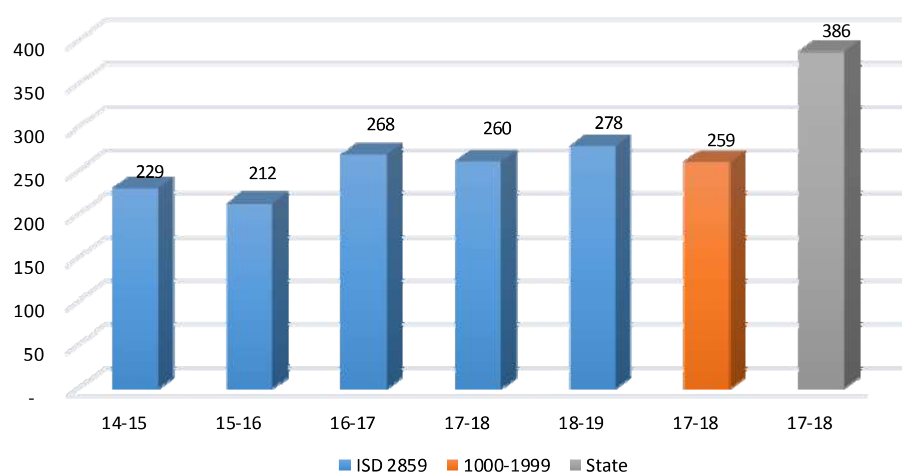
Special Education Instruction - consists of activities to provide learning experiences for pupils of any age with atypical characteristics or conditions.

Instructional Support

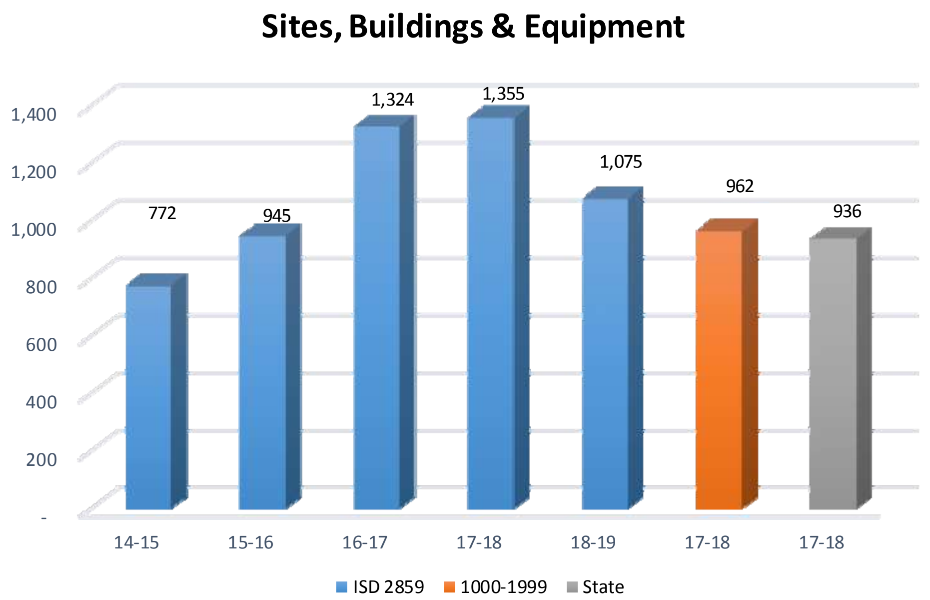


Instructional Support Services - activities to assist instructional staff with content & process of earning experiences for pupils in K-12 (curriculum, staff dev, etc.).

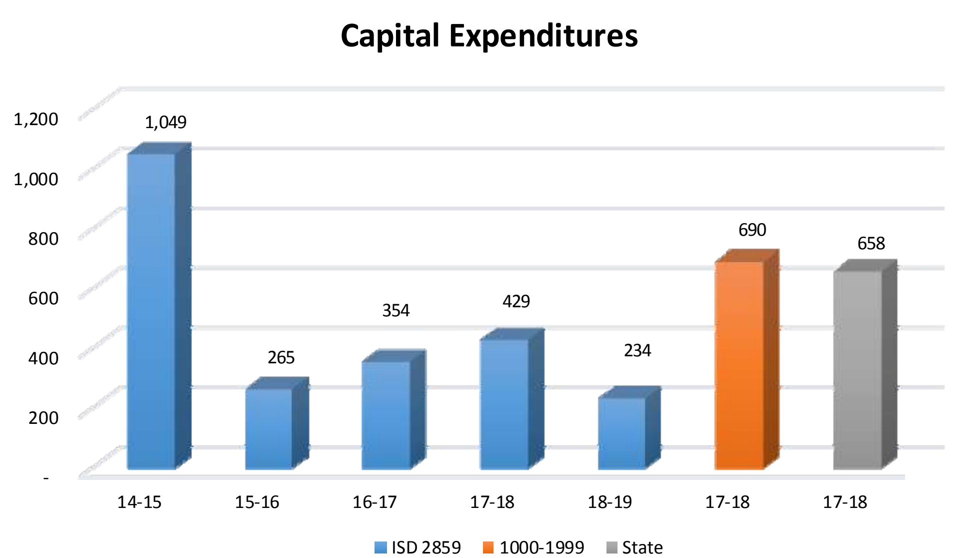
Pupil Support Services



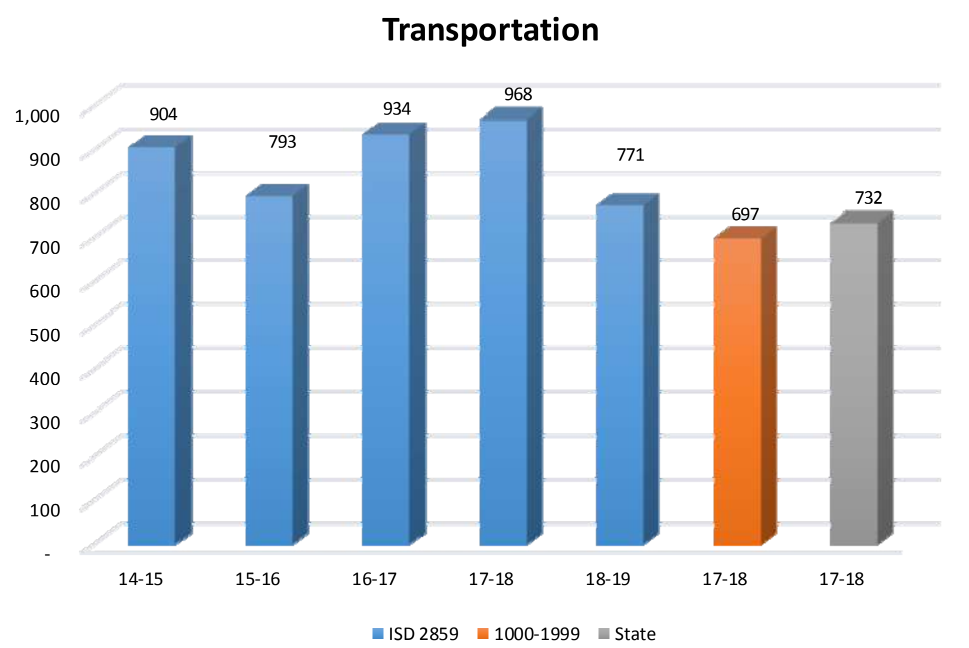
Pupil Support Services - services to pupils not classified as instructional (counseling & guidance, health services, psychological services, and social work) - excludes transportation.

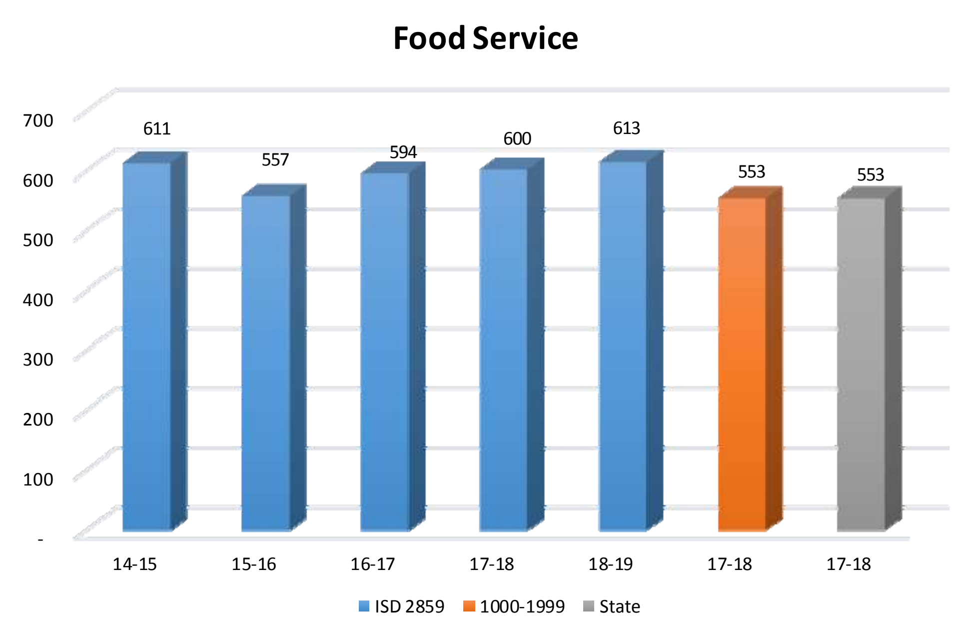


Operations and Maintenance - activities related to the operation, maintenance, repair and remodeling of all physical plant, facilities and grounds of the District.



Capital Expenditures - all capital expenditures charged to operating funds.





Food Service - all costs of the Food Service Fund.

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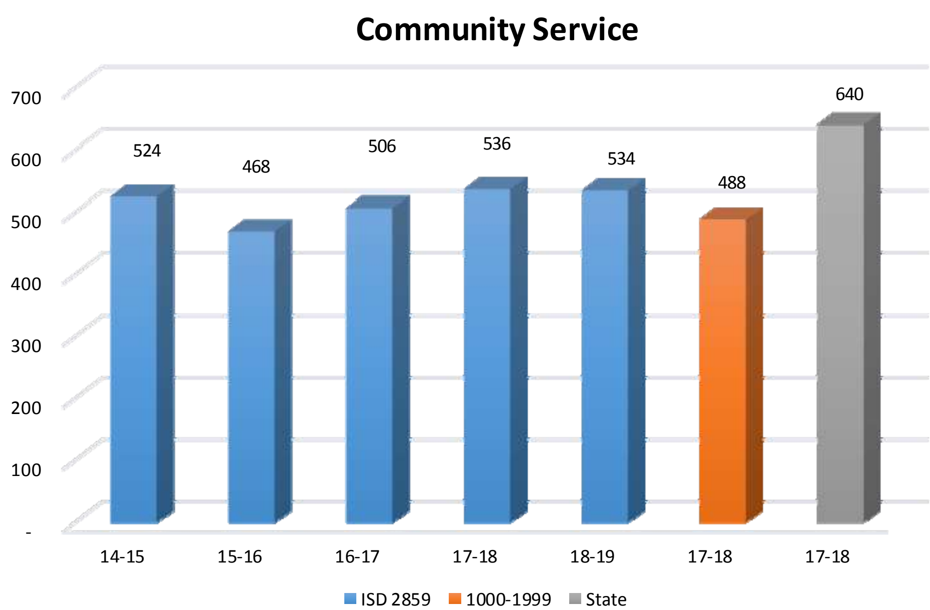
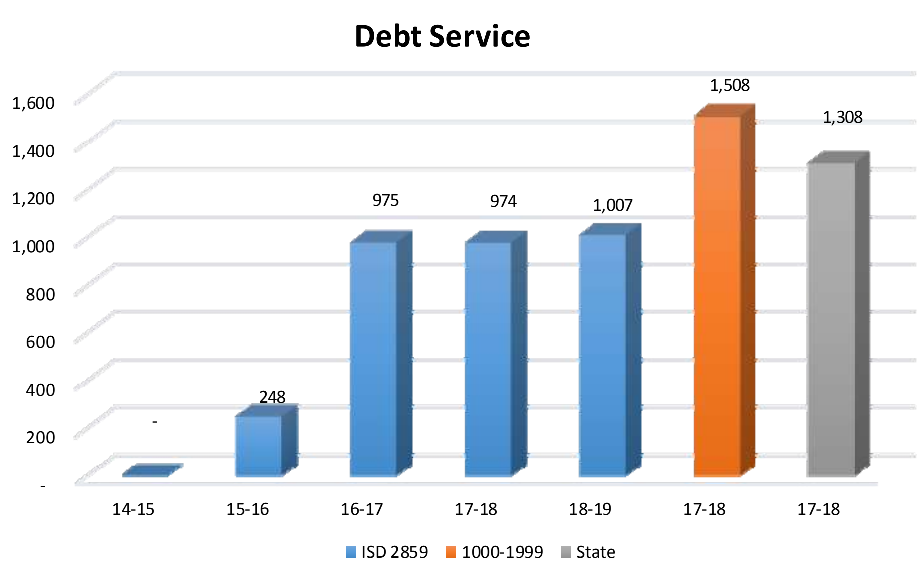
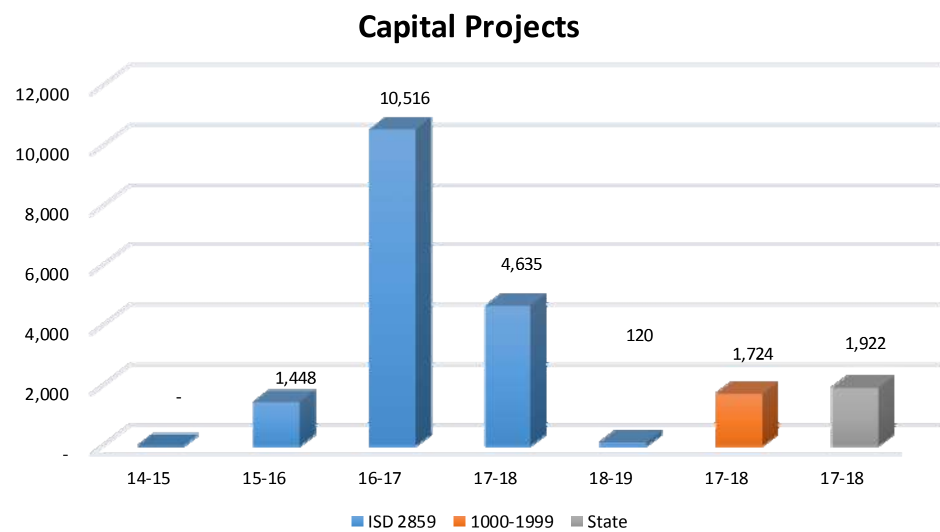


Community Service - all costs of the Community Service Fund.



Debt Service - all costs of the Debt Service Fund.



Capital Projects - all costs of the Capital Projects Fund.

APPENDIX B

LEGISLATIVE ACTIVITY

What follows are some education-related highlights of the 2019 legislative session as summarized from information made available by the Minnesota Department of Education, the Minnesota School Boards Association, and the Minnesota House of Representatives.

General Education Formula Increase
The General Education Revenue formula allowance was increased by 2% (by $126 per pupil unit to $6,438) for fiscal year 2020 and by another 2% (by $129 per pupil unit to $6,567) for fiscal year 2021 and later.

Special Education Funding
Special education aid was increased by the amount needed ($90,691,000) to hold the state average cross-subsidy constant at the fiscal year 2019 rate of $820 per pupil. Beginning in fiscal year 2020, the following special education funding formula changes take effect:

- created a new category of special education aid called cross-subsidy reduction aid, and includes cross-subsidy aid in the definition of special education aid.
- the special education aid cap is phased out in fiscal 2021 and later.
- the tuition billing rate or “billback” paid by the resident school district is reduced for open enrolled special education students served by another district or charter school, and
- adjusts the hold harmless to reduce the reliance on the fiscal year 2016 base and factors in current year costs.

Special Education Tuition Billing
The tuition rate paid by the resident district for open enrolled students is reduced from 90% to 85% of the unfunded costs for fiscal year 2020 and to 80% for fiscal year 2021 and later. The general education revenue for a charter school student is adjusted equal to 5% in fiscal year 2020 and 10% in fiscal year 2021 and later, of the unreimbursed cost of providing special education services to the student. Charter schools will receive additional special education aid from the state to fully fund the impact of the tuition billing change.

Voluntary Prekindergarten / School Readiness Plus
The funding for this 4,000 seat program that was set to expire after fiscal 2019 was extended for two additional years.

School Safety Supplemental Aid
Makes a one-time appropriation of up to $30 million. Districts must reserve the aid and use it for the same purposes as the safe schools levy.

Tribal Contract School Aid
The tribal contract aid amount for fiscal years 2020 and later was increased. Converts $3,230 per pupil to 51.17% of the basic formula allowance (this links future amounts to increases in the basic formula allowance).

School Board Control of Extracurricular Activities
Aligns school board responsibility for extracurricular activities to GASB requirements 84 and 87. Requires a school board to take charge of and control all extracurricular activities. Also requires a school district to reserve revenue raised for extracurricular activities and spend the revenue only for extracurricular activities. School boards will need to review each student activity account not under board control to determine whether the activity belongs under a district's General Fund or should not be a part of the district's financial system, (i.e.: outside organizations such as Booster Clubs). Effective July 1, 2019.

Simplification of Local Optional Revenue (LOR)
Modifies local optional revenue so that the revenue no longer needs to be factored into a district's referendum revenue. Transfers $300 per pupil unit of referendum revenue to LOR. Keeps the revenue and equalization levels the same. Conforms equity revenue, referendum allowance, referendum allowance limit, referendum equalization levy, and aid to the realignment of local optional revenue.

Dyslexia Screening
Requires a school district to screen for characteristics of dyslexia, in a locally determined manner, students identified as not reading at grade level by the end of kindergarten, grade 1, and grade 2. For students in grade 3 or higher, requires a district to screen students for characteristics of dyslexia, in a locally determined manner, who demonstrate a reading difficulty, unless a different reason for the reading difficulty has been identified.

Lead in School Drinking Water
Charter schools were added to the testing requirements. A school district or charter school that finds lead in cooking or drinking water is required to formulate, make publicly available, and implement a plan consistent with established guidelines and recommendations to ensure student exposure to lead is minimized. Districts and charter schools are also required to remediate the presence of lead to below the level set in the guidance, verified by retest, or directly notify parents of the result. The water source is required to be made unavailable until the hazard has been minimized.

Disposing of Surplus School Computers
In addition to authority available under current law to transfer surplus school computers to another school district, the state Department of Corrections, the Minnesota State system, or a family in the school district whose income is at or below the federal poverty level, legislation authorizes a school district to transfer a computer to a charitable nonprofit registered with the attorney general's office, or to sell or give a surplus computer to currently-enrolled district students who intend to enroll the following year. Requires the district to give priority to those students eligible for free or reduced-price meals and distribute the remaining computers by lottery.

Referendum Equalization Levy
The Legislature provided $9,000,000 in property tax relief in fiscal year 2021 and $600,000 for additional referendum aid for charter schools. The equalization factor for Tier 2 (new Tier 1) of the referendum levies was increased and conforms with technical provisions in the 2019 Education Omnibus Bill that convert the board-approved portion of Tier 1 referendum revenue to the local optional program. Effective for fiscal year 2021 and later.

School Building Bond Agricultural Credit
The school building bond ag credit was increased from 40% to 50% in Pay 20, to 55% in Pay 21, to 60% in Pay 22 and to 70% in Pay 23 and thereafter.

APPENDIX C

TECHNICAL UPDATE

GASB Statement No. 83 – Certain Asset Retirement Obligations

GASB Statement No. 83 provides accounting and financial reporting requirements for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Examples include: decommissioning of nuclear reactors, removal and disposal of wind turbines in wind farms, dismantling and removal of sewage treatment plants, and removal and disposal of x-ray machines. The statement is effective for financial statements for periods beginning after June 15, 2018.

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

GASB Statement No. 88 improves the consistency in the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. The 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. Requires disclosure of additional essential information about debt. The statement is effective for reporting periods beginning after June 15, 2018.

The remaining GASB standards have been issued but are not yet effective.

GASB Statement No. 84 – Fiduciary Activities

GASB Statement No. 84 establishes criteria for identifying fiduciary activities for state and local governments, focusing on (1) whether the government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. 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 is provided for a business-type activity that normally expects to hold custodial assets for three months or less. Different criteria are included for fiduciary component units and postemployment benefit arrangements.

The main changes of this statement:

1. Governments may find additional activities that need to be reported as fiduciary that were not reported in the past.
2. Some activities treated as fiduciary may no longer be reported as fiduciary.
3. Agency funds will now be called custodial funds.
4. A statement of changes in fiduciary net position will be required for custodial funds.
5. Liabilities will be reported when an event has occurred that compels the government to disburse fiduciary resources.
6. Single purpose business-type activities will be required to report fiduciary activities unless the above exception applies.

The statement is effective for reporting periods beginning after December 15, 2018. The following are considerations for Minnesota school districts.

GASB Statement No. 84 – Fiduciary Activities (Continued)

GASB No. 84 has new definitions for pension trust funds, investment trust funds and private purpose trust funds. Trust agreements or an equivalent arrangement must be present for an activity to be reported in a trust fund. Custodial funds will report fiduciary activities for which there is no trust or equivalent arrangement. The Agency Fund (Fund 9) will no longer be allowed as of July 1, 2019, since this is no longer valid per GASB Statement No. 84. Review all activity in Fund 9 to determine if the activity belongs in a different fund or if the LEA should not keep the activity. MDE has requested a new fund (Fund 18) to be in compliance with GASB Statement No. 84.

Student activities not under board control are not considered to be special revenue funds because they do not represent a single stream of revenue and the purpose of each activity may vary. Effective July 1, 2019, Minnesota school districts will no longer be allowed to report student activities “not under board control”. Student activities within the General Fund will need to be reserved using fund balance account 401 so the student activity funds are not comingled. The use of a restricted fund balance code will also ensure that there is no impact on the state’s statutory operating debt (SOD) calculation. Districts may, for local purposes, choose to have sub-accounts within the fund balance for each student activity (i.e., student council, chess club or band).

Things to keep in mind once student activities are under board control include the fact that the Board must review all transactions, the Board will have oversight on activity accounts, there may be changes in allowable expenditures and there will be school board approval of all contracts (although this should have already been occurring). School districts will want to review and implement, where necessary, appropriate internal controls over receipting, fundraising, etc.

GASB Statement No. 87 – Leases

GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. Specifically, this statement:

1. Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
2. Defines the “lease term” and clarifies when lessees and lessors should reassess the lease term due to lease modifications or terminations.
3. Defines and establishes recognition criteria for short-term leases.
4. Amends accounting and financial reporting requirements for contracts with multiple components, contract combinations, subleases, and leaseback transactions.

The statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

STEPS THAT CAN BE TAKEN NOW

1) **Gather leases and contracts**. Depending on the number of leases your organization has, this may be a bigger challenge than anticipated. Keep in mind that not all leases are written "lease" agreements. Some contracts also include embedded leases that were previously treated as expenses, so you may be surprised to find more operating leases than you realized. Checking accounts payable for recurring payments may help you locate agreements that you'll need to analyze.

2) **Analyze all contracts to determine which are leases under the new standard**. GASB 87 defines a lease as a "contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset), as specified in the contract, for a period of time in an exchange or exchange-like transaction." Here are some of the agreements that can be excluded:

   - Short-term leases that are one year or less in duration.
   - Intangibles, such as investment assets, software licenses, and patents.
   - Financed purchases, where ownership of the asset transfers at the end of the lease without an additional payment.

3) **Review leases for multiple components.** Some leases include service agreements that will need to be split off from the entire lease. Many agreements (like service agreements and supply contracts) may qualify as leases under GASB 87. Some examples of service contracts that may have embedded leases can include cafeteria equipment, soda fountains, water coolers, coffee machines, etc. where the government may get to use a particular piece of equipment for free in return for the exclusive use of the provider's products.

4) **Determine appropriate materiality thresholds for capitalization**. Work with your auditor to determine what this should be. Be aware that items that are well below that threshold individually may be material in the aggregate.

5) **Select a technology solution such as leasing software to help manage your leases**. Unless your organization only has a few leases, the calculations for journal entries and footnote disclosures will most likely be beyond the capabilities of Excel. When choosing a software solution, keep in mind that tracking this information from leases will be an ongoing project, so look for one that's easy to use and provides your organization with all the information you'll need. Make sure to consider document storage as part of the capabilities. Entities with greater than 10-20 identified leases may wish to seriously consider a lease software solution and not rely on spreadsheets. Keep in mind that if a government has many similar leases, it may choose to amortize the lease assets as a group rather than individually. Composite depreciation is applied to groups of dissimilar assets, but should not be applied across classes of assets, such as buildings, equipment, furniture, and vehicles.

6) **Consider the district's bond covenants, loan covenants, and debt limitations to determine impact**. While a recent update from GASB (GASB 88) specifies that lease liabilities are excluded from the definition of debt for the purposes of financial statement disclosures, it's not clear whether banks, credit rating agencies or other stakeholders will take a similar stance.

   Adding liabilities for operating leases to the balance sheet may mean that covenants for bond contracts and loan agreements will be violated. If this is the case, you may need to renegotiate those agreements. Contacting these stakeholders and other interested parties early on is crucial.

Adding to the complexity, the rules and statutes governing debt limitations vary across states, counties, and municipalities. You may need to consult with an attorney to determine whether lease liabilities count as debt for those limitations.

7) **Develop new district policies and procedures as necessary.** Unlike many other financial controls, you'll need to work as a team with people outside of accounting, including procurement, IT, and legal, to make sure all leases and contracts go through accounting. You may need to educate others about the balance sheet impacts of leases.

8) **Do your initial calculations and run the results past your auditor**. Because the calculations are different from the previous treatment of leases, some advisors are recommending performing a trial calculation on a subset of your leases. Then, ask us as your auditors to check your numbers before you do the entire population of leases.

9) **Begin the process early**. Early adopters report that they need two or three hours per lease to analyze and extract the data. Adding to the challenge, many government finance professionals wear many hats, and dealing with financial matters may be only a small part of their responsibilities. Be sure to keep the resulting information very organized and accessible and also keep in mind the new information that will be required for footnote disclosures.

10) **Start learning and keep learning**. Understanding the new standards is a steep learning curve. You'll need to dedicate time and resources for your team to get up to speed.

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

GASB Statement No. 89 provides that for financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset. Effective for reporting periods beginning after December 31, 2019. Earlier application is encouraged.

GASB Statement No. 90 – Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61

GASB Statement No. 90 modifies previous guidance for reporting a government's majority equity interest in a legally separate organization by specifying that this type of interest should be reported as an investment if it meets the definition of an investment as prescribed in GASB 72. For all other holdings of a majority equity interest, a government would report the legally separate organization as a component unit, and the government or fund that holds the interest would report the asset using the equity method. Effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 91 – Conduit Debt Obligations

The primary objective of GASB Statement No. 91 is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Effective for reporting periods beginning after December 15, 2020.