CliftonLarsonAllen LLP
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September 11, 2020

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

CliftonLarsonAllen LLP

Mary Reedy, CPA
Principal

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

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2020

GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
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JUNE 30, 2020

EXECUTIVE AUDIT SUMMARY (EAS) FOR
INDEPENDENT SCHOOL DISTRICT NO. 2859
YEAR ENDED JUNE 30, 2020

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, 2020.

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 application classifications.

Minnesota Legal Compliance

There were no Minnesota legal compliance findings for the fiscal year 2020.

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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, 2020, and have issued our report thereon dated September 11, 2020. 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.

During the year ended June 30, 2020, the District changed accounting policies related to its accounting for fiduciary activities by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 84, Fiduciary Activities. The statement provides guidance regarding the identification of fiduciary activities for accounting and reporting purposes and how those activities should be reported.

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)

Accounting Estimates (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 2019-20. 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 2020 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 2019-20. 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.

<u>Significant Audit Findings (Continued)</u>

Qualitative Aspects of Accounting Practices (Continued)

<u>Accounting Estimates (Continued)</u>

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.

<u>Financial Statement Disclosures</u>

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 11, 2020.

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 11, 2020.

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 11, 2020.

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 11, 2020

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 8 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 15 through 21 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.

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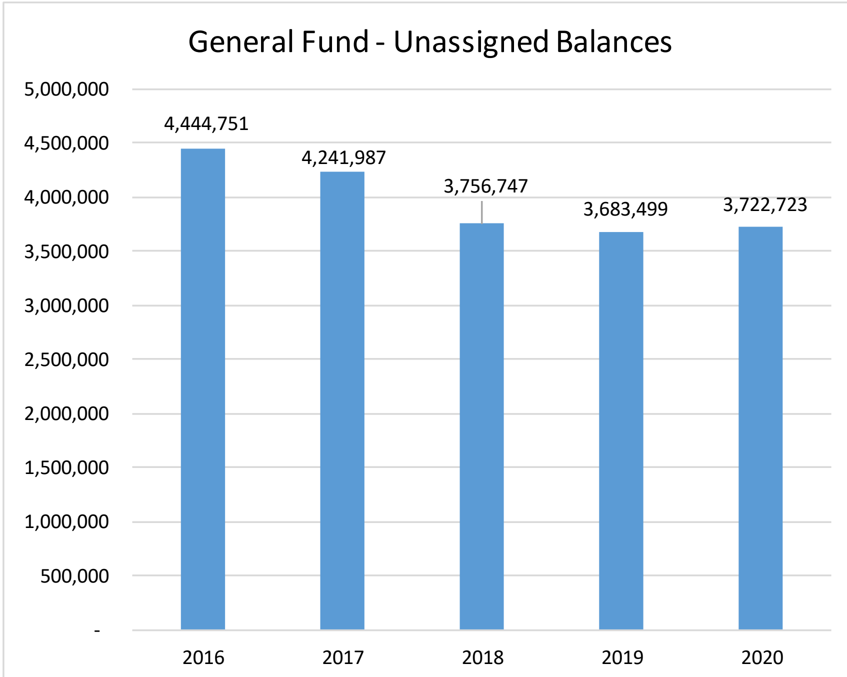
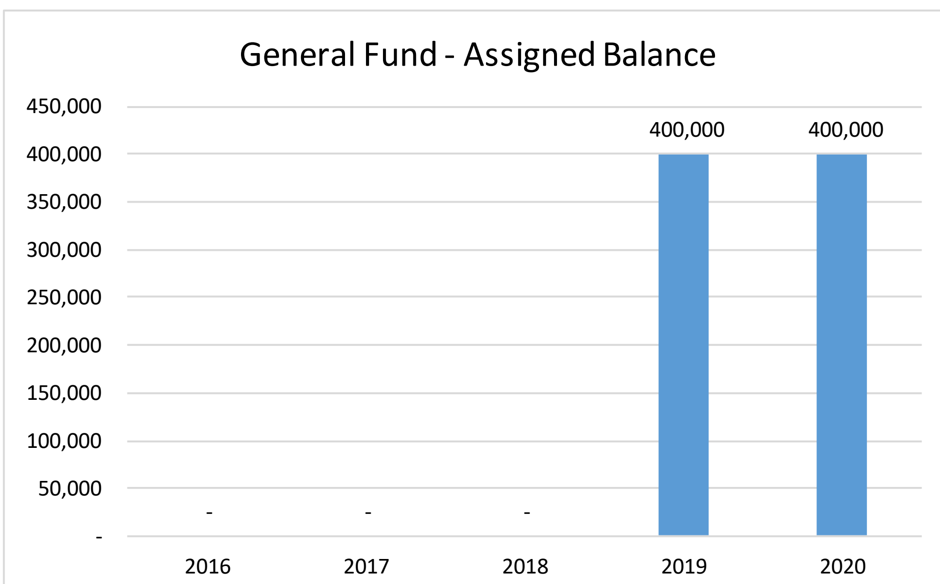
INDEPENDENT SCHOOL DISTRICT NO. 2859
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL FUND
YEAR ENDED JUNE 30, 2020

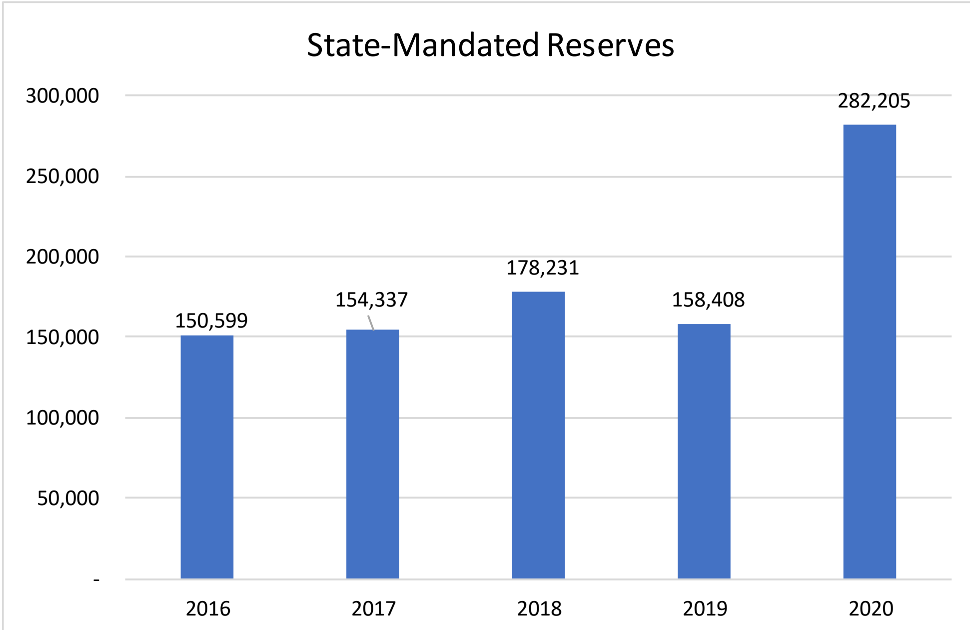
				Capital Related Restrictions			
	Nonspendable & Unassigned	Assigned	Noncapital Related Restrictions	Operating Capital	Long-Term Facility Maintenance	Total	Grand Fund Total
Revenues and Other Financing Sources	$ 16,119,537	$ -	$ 1,524,205	$ 387,463	$ 646,423	$ 1,033,886	$ 18,677,628
Expenditures and Operating Transfers	16,074,813	-	1,468,955	277,955	695,814	973,769	18,517,537
Excess (Deficit) Revenues Over Expenditures	44,724	-	55,250	109,508	(49,391)	60,117	160,091
Fund Balance June 30, 2019	3,694,094	400,000	158,408	594,165	-	594,165	4,846,667
Restatement of Fund Balance	-	-	68,547	-	-	-	68,547
Fund Balance June 30, 2019, Restated	3,694,094	400,000	226,955	594,165	-	594,165	4,915,214
Fund Balance June 30, 2020	$ 3,738,818	$ 400,000	$ 282,205	$ 703,673	$ (49,391)	$ 654,282	$ 5,075,305

Budget to Actual Comparison

	General Fund		Food Service	
	Revenues	Expenditures	Revenues	Expenditures
Budget	$ 18,571,862	$ 18,668,683	$ 970,322	$ 840,118
Actual	18,676,562	18,517,537	981,313	985,746
Difference	$ 104,700	$ (151,146)	$ 10,991	$ 145,628
	Community Service			
	Revenues	Expenditures		
Budget	$ 765,005	$ 808,581		
Actual	794,990	799,301		
Difference	$ 29,985	$ (9,280)		

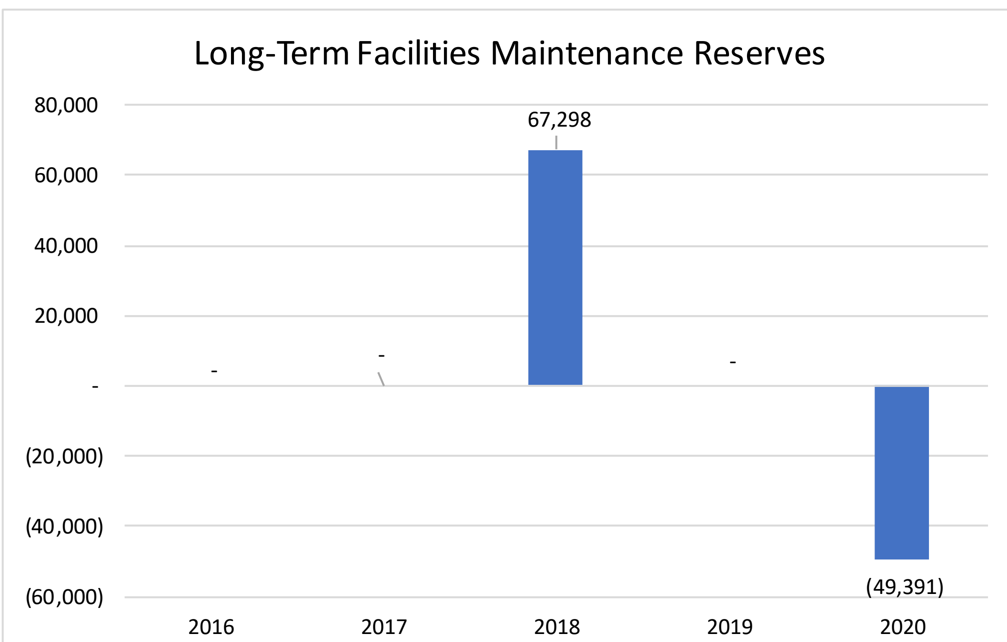

General Fund - Unassigned Balances
5,000,000
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
4,444,751
4,241,987
3,756,747
3,683,499
3,722,723
2016
2017
2018
2019
2020


General Fund - Assigned Balance
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
-
-
-
400,000
400,000
2016
2017
2018
2019
2020



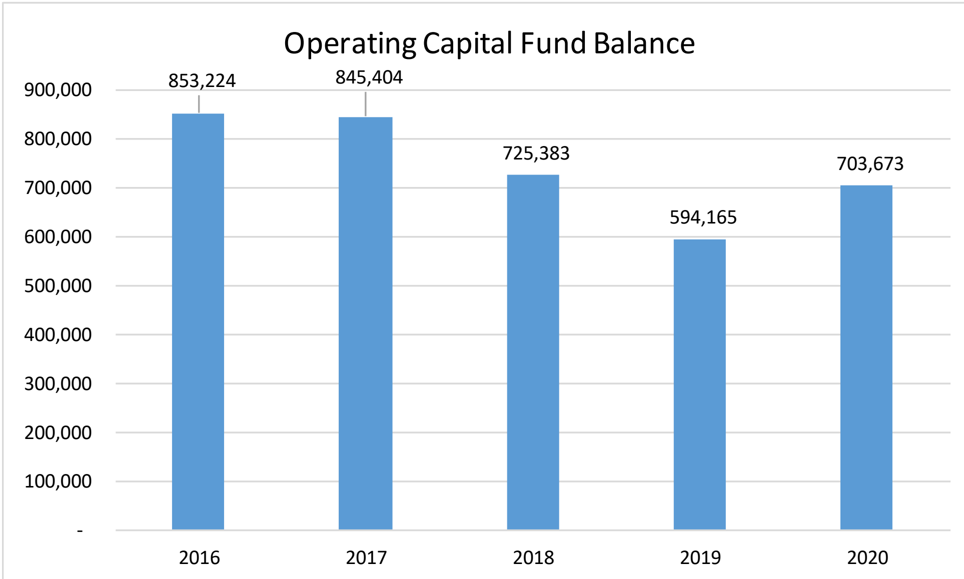
Create Opportunities

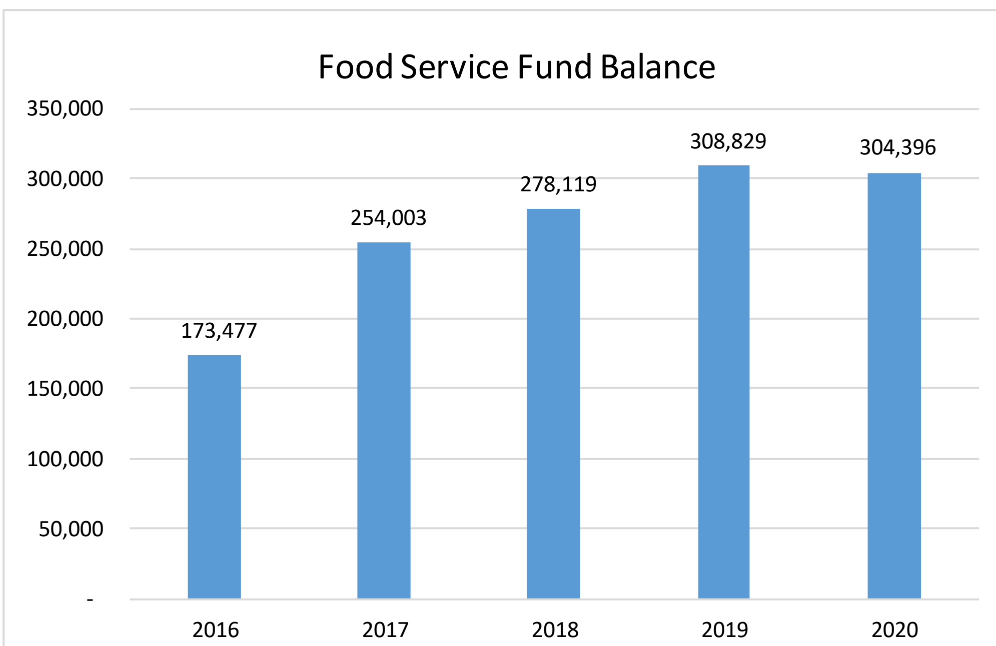
6

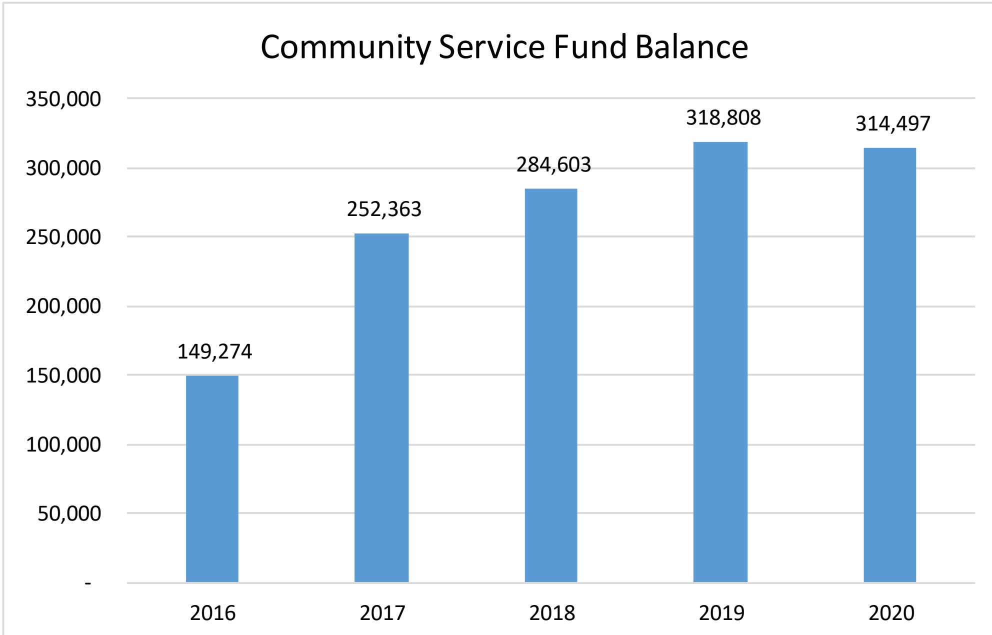


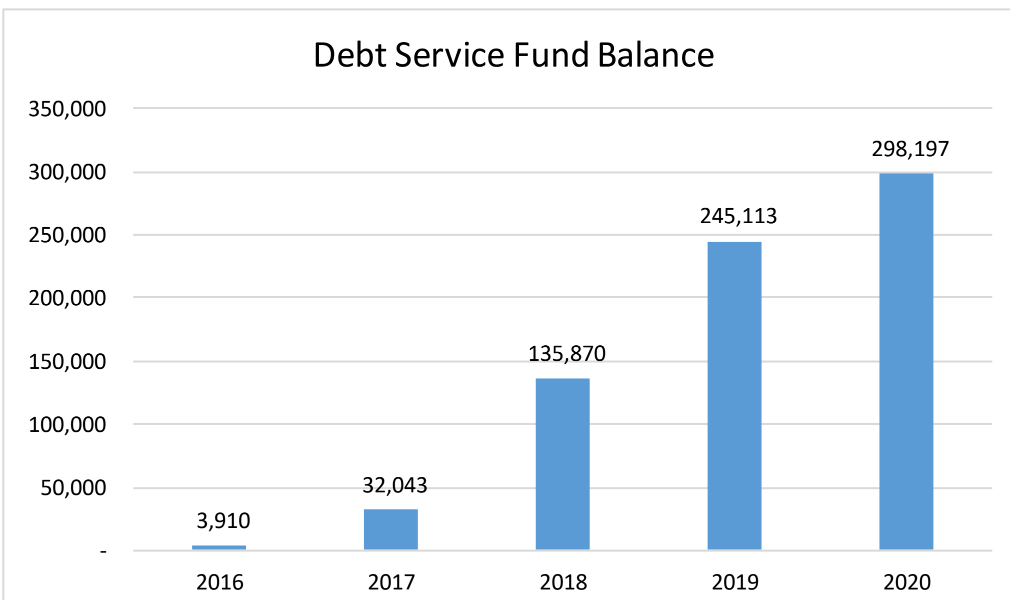
Create Opportunities

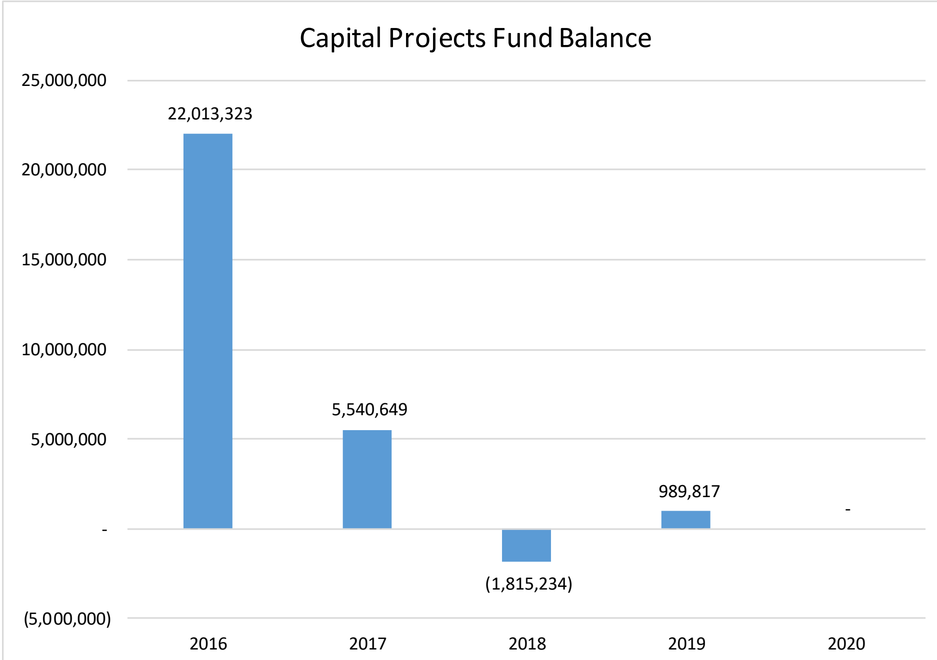
7

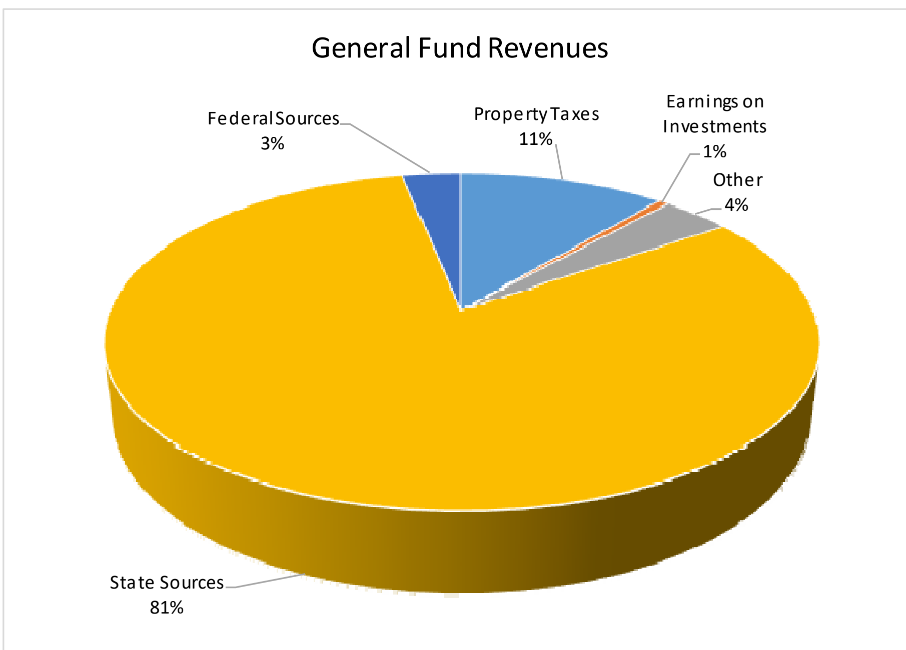

Operating Capital Fund Balance
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
853,224
845,404
725,383
594,165
703,673
2016
2017
2018
2019
2020

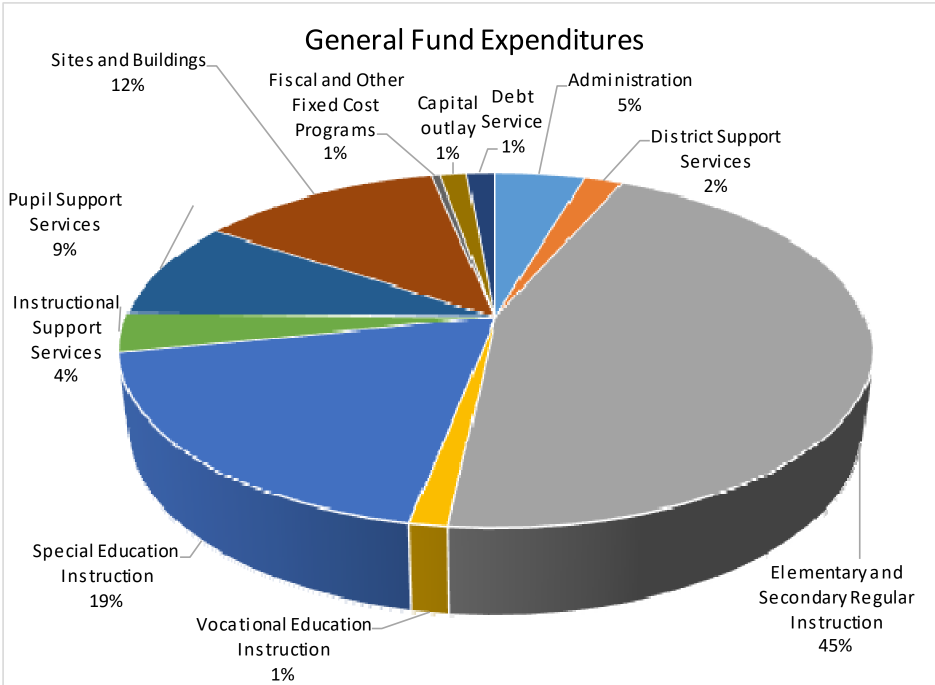

Food Service Fund Balance
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
173,477
254,003
278,119
308,829
304,396
2016
2017
2018
2019
2020

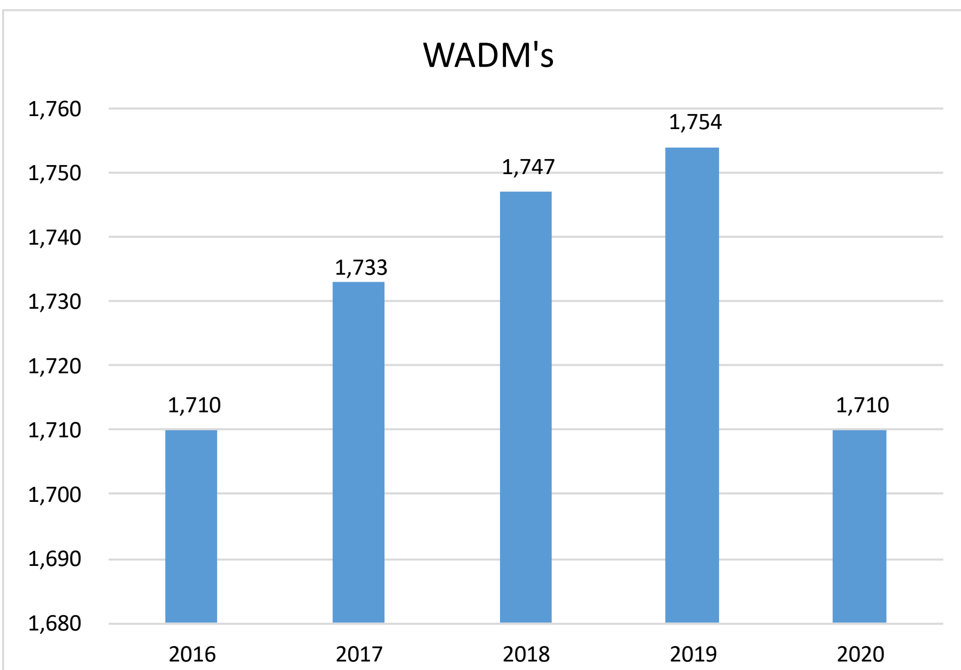

Community Service Fund Balance
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
149,274
252,363
284,603
318,808
314,497
2016
2017
2018
2019
2020


Debt Service Fund Balance
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
3,910
32,043
135,870
245,113
298,197
2016
2017
2018
2019
2020

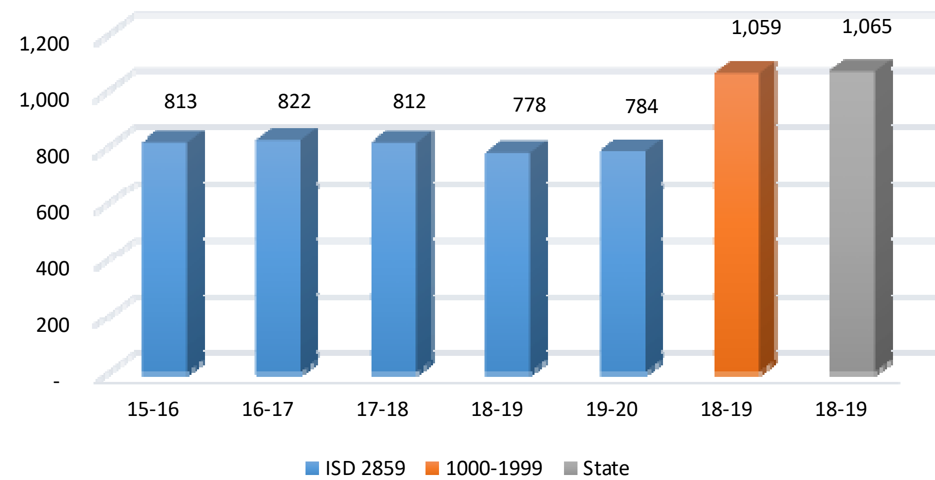

Capital Projects Fund Balance
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
-
(5,000,000)
22,013,323
5,540,649
(1,815,234)
989,817
-
2016
2017
2018
2019
2020


General Fund Revenues
Federal Sources
3%
Property Taxes
11%
Earnings on
Investments
1%
Other
4%
State Sources
81%


General Fund Expenditures
Sites and Buildings 12%
Fiscal and Other Fixed Cost Programs 1%
Capital outlay 1%
Debt Service 1%
Administration 5%
District Support Services 2%
Pupil Support Services 9%
Instructional Support Services 4%
Special Education Instruction 19%
Vocational Education Instruction 1%
Elementary and Secondary Regular Instruction 45%

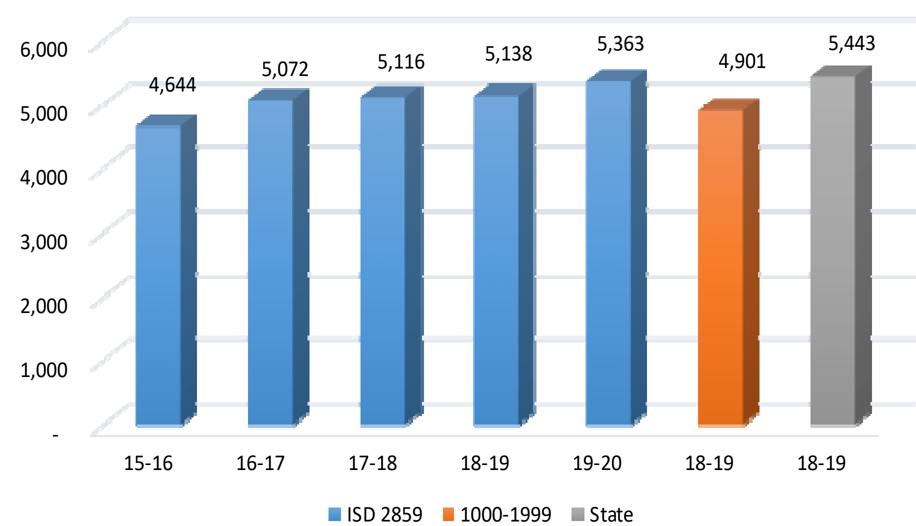

WADM's
1,760
1,750
1,740
1,730
1,720
1,710
1,700
1,690
1,680
1,710
1,733
1,747
1,754
1,710
2016
2017
2018
2019
2020

Districts & School Administration

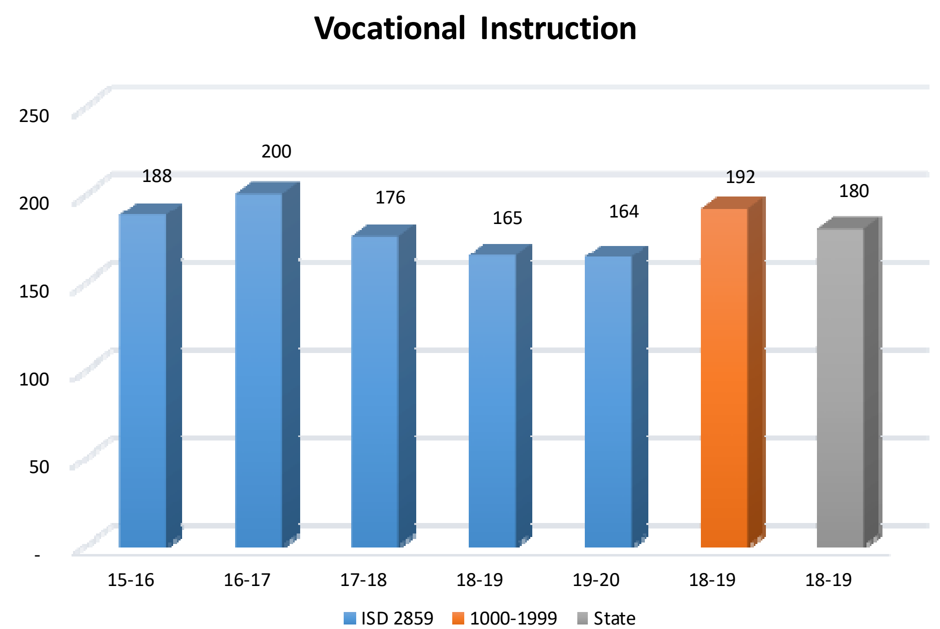


District and School Admin - all costs related to providing administration to the District (Board of Education, Superintendent, Principals, Line Administrators, etc.).

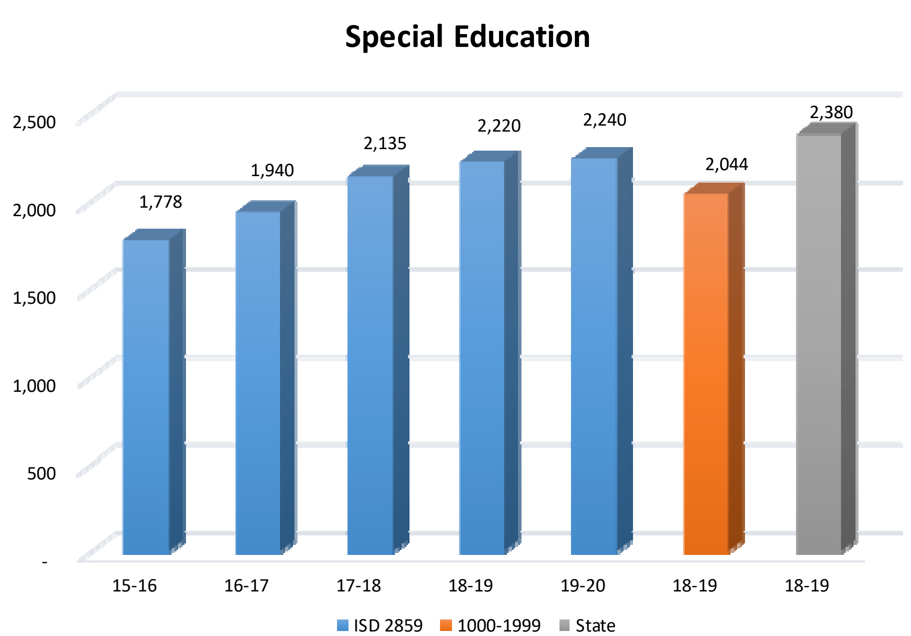
Regular Instruction



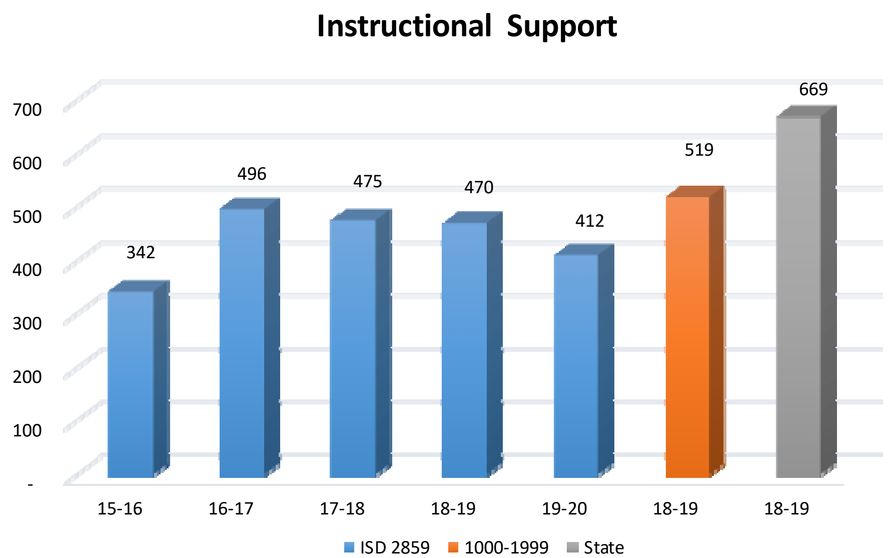
Regular Instruction - includes all activities dealing directly with the teaching of pupils including co-curricular and extra-curricular activities (excluding special ed, vocational and community education instruction).



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

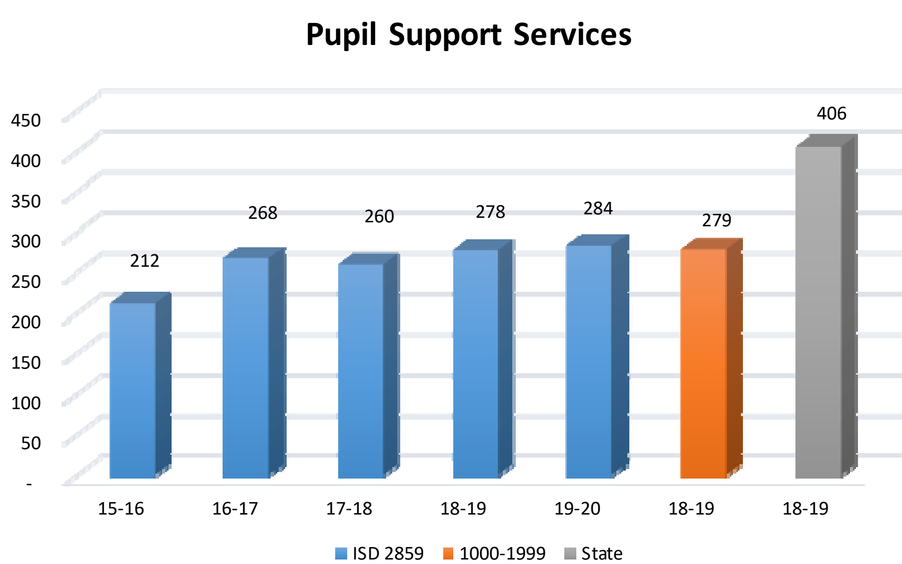


Special Education Instruction - consists of activities to provide learning experiences for pupils of any age with atypical characteristics or conditions.



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

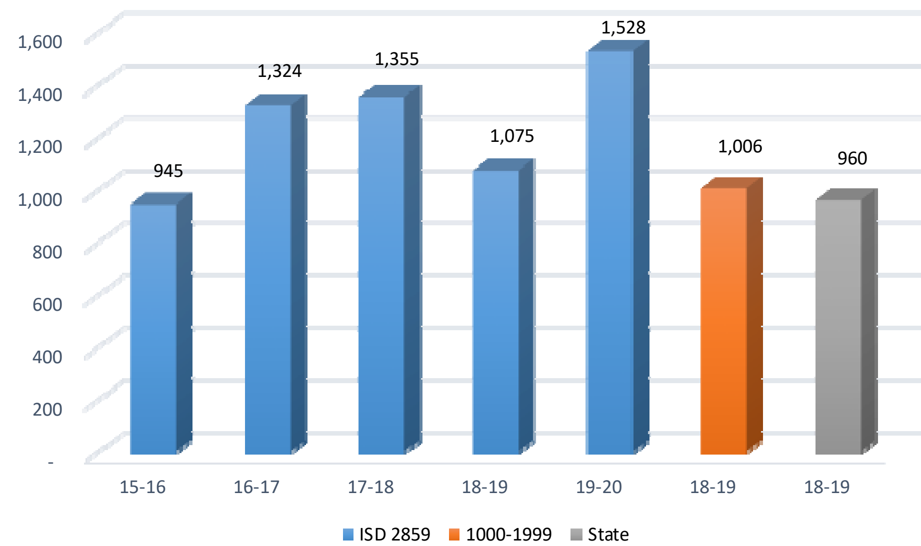
Create Opportunities 20



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

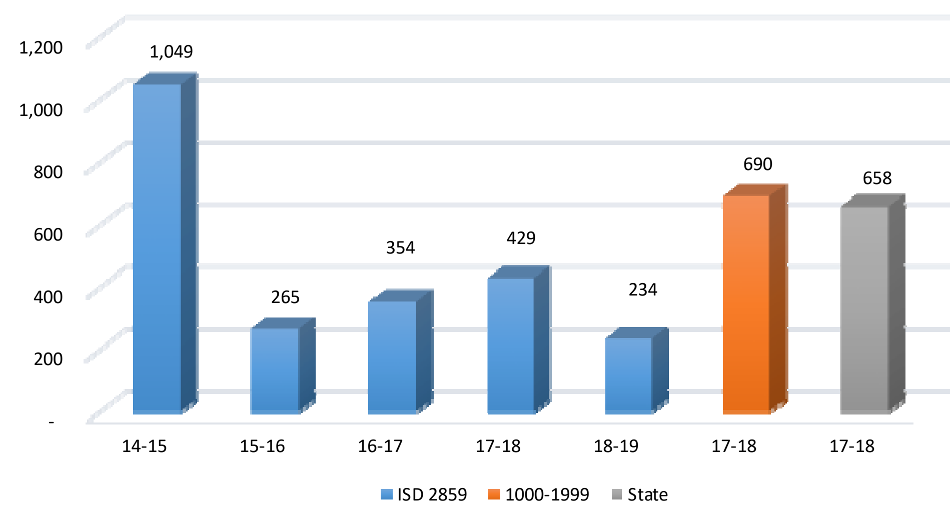
Create Opportunities 21

Sites, Buildings & Equipment



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

Capital Expenditures



Capital Expenditures - all capital expenditures charged to operating funds.

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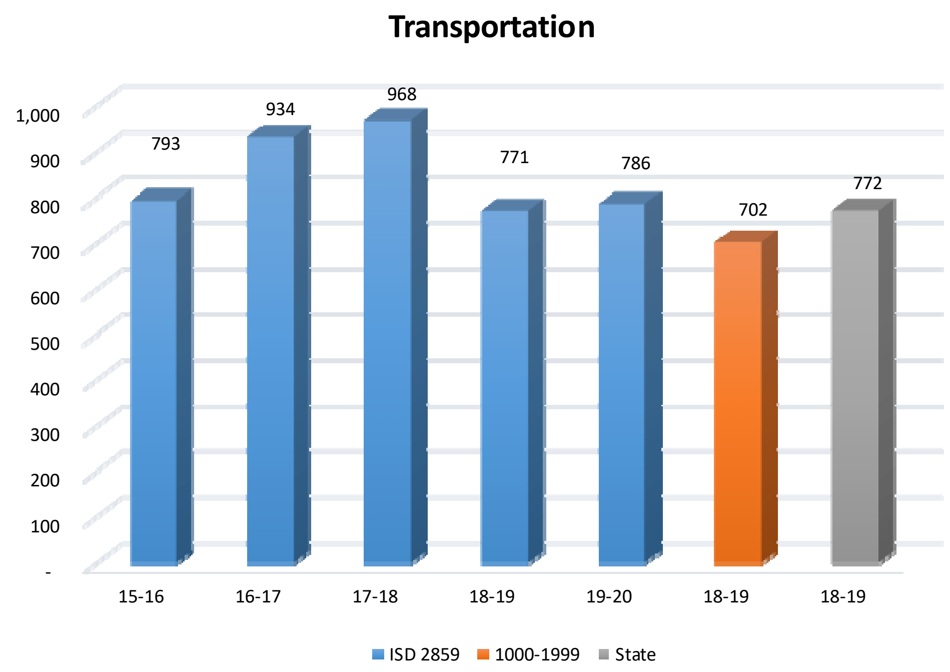
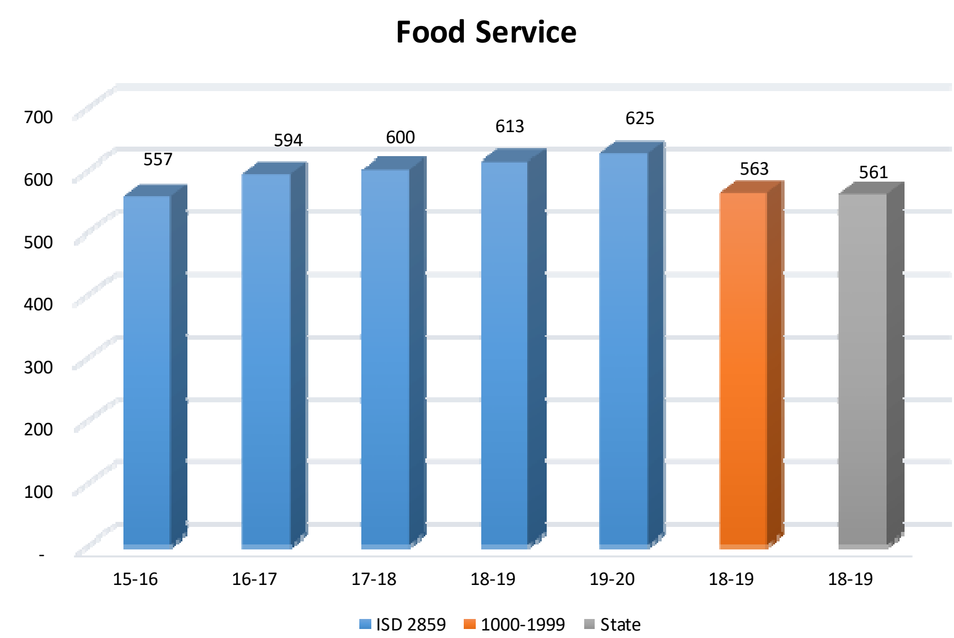
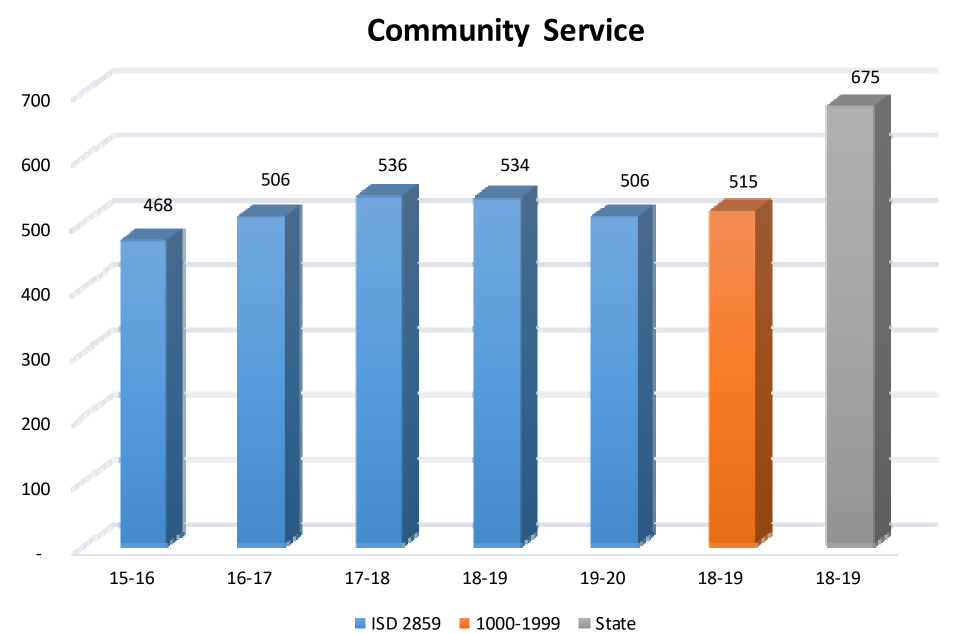
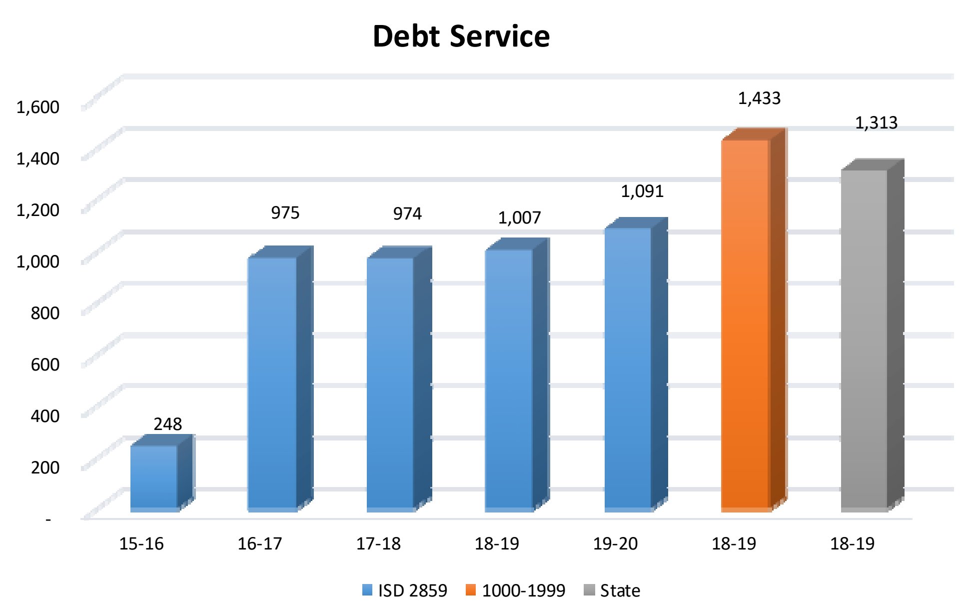




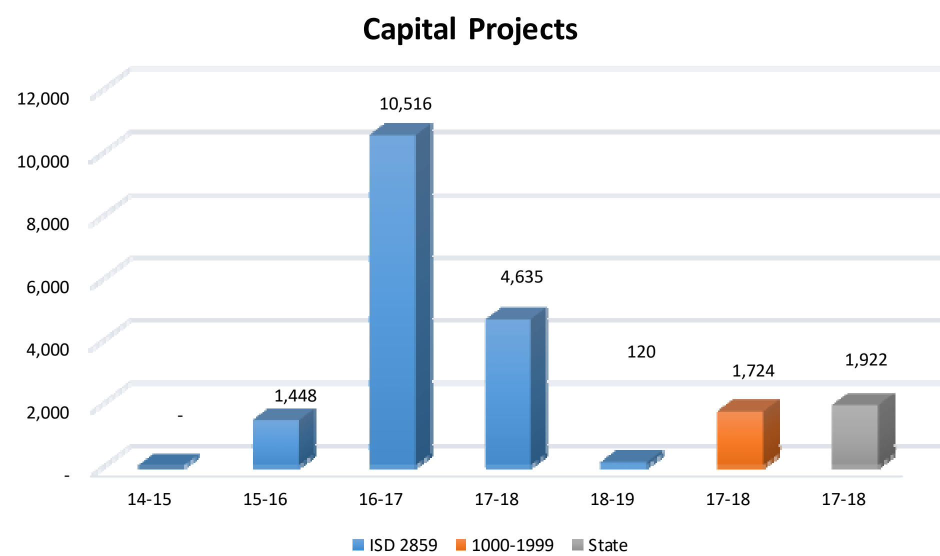
Food Service - all costs of the Food Service Fund.



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 2020 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 requirement to reserve a portion of compensatory revenue for extended time programming was eliminated beginning in fiscal 2021. Under the old law, districts would have been required to reserve 7.5% of compensatory revenue for extended time programming in fiscal 2021. However, the 5.5% of fiscal 2020 compensatory revenue (excludes regular formula amount and any grandfathered pilot amount) must still be reserved for extended time. Any balance remaining in balance sheet account 459 as of June 30, 2020 can only be used for extended time unless transferred out in fiscal 2020 or fiscal 2021 using the transfer provisions provided in law.

COVID-19 Formula Adjustments
Expanded the allowable uses of the regional library telecommunications aid for fiscal 2020 and later, to include improving internet access and access to technology with items that are not e-rated, including but not limited to, digital or online resources.

Addressed school finance formula glitches resulting from the conversion to the distance learning model as follows:

- Special Education Aid – fiscal 2020 expenditures for employees and contracted services that would have been eligible for state aid in the absence of school closures due to COVID-19 must be included as eligible expenditures for calculation of aid and for tuition billing, regardless of whether special education services were actually provided during the closure.
- School Meals - State aid savings due to lower meal counts for regular school food service programs are reallocated on a per meal served basis to schools providing summer food service meals between March 16 and June 30, 2020.
- Career and Technical Education (CTE) Revenue - If fiscal 2020 or 2021 revenue based on actual expenditures is below the February 2020 forecast estimate, the Minnesota Department of Education (MDE) is authorized to recalculate the revenue for expenditures incurred on or after March 18, 2020, in an equitable manner (e.g., increase the reimbursement rate) to ensure the full expected amount of funding is distributed to schools. The revenue must be prorated if it would exceed the February 2020 forecast estimates.
- Nonpublic Pupil Transportation Aid - Allows MDE to adjust FY 2020 pupil transportation expenditures used to determine fiscal 2022 aid to ensure that the full amount of aid estimated in the February 2020 forecast is equitably allocated among districts.
- Interdistrict Desegregation or Integregation Transportation Aid - Allows MDE to adjust fiscal 2020 pupil transportation expenditures used to determine fiscal 2021 aid to ensure that the full amount of aid estimated in the February 2020 forecast is equitably allocated among districts.
- Adult Basic Education Aid - Allows MDE to recalculate the contact hour reimbursement rate for fiscal 2021 or otherwise adjust the formula to fully spend the amount estimated based on the February 2020 forecast. The aid must be prorated if it would exceed the February 2020 forecast estimates.
- Literacy Incentive Aid - Excludes tests administered during the 2019-20 school year from the three-year averages used in computing the aid for FY 2021, FY 2022, and FY 2023, and allows the commissioner to adjust the formula rates for these years to ensure that the aid does not fall below the amount estimated in the February 2020 forecast.

- School Age Care Revenue - For fiscal 2020 and 2021 only, for spending on or after March 18, 2020, each district's school-age care revenue continues at its approved amounts, and program funds may be reallocated consistent with the process and limitations of the fund transfer provisions in the bill.
- Community Education After-School Enrichment Revenue - For fiscal 2020 and 2021 only, for spending occurring on or after March 18, 2020, after-school enrichment revenue may be reallocated consistent with the process and limitations of the fund transfer provisions in the bill.
- Early Childhood Screening - Directs MDE to calculate the aid for fiscal 2020 and 2021 using the formula amounts set in statute for each age group and the 2018-19 school year counts of children screened for each age group.
- Achievement and Integration Revenue - Authorizes a school district to carry over any unspent balance of its approved budget for fiscal 2020 into fiscal 2021. If spent for approved purposes in fiscal 2021, the district would generate additional fiscal 2021 revenue over and above the regular formula limitations.

Fund Transfers
Allows a school district, charter school, or a cooperative unit to make operating fund and account transfers for fiscal years 2020 and 2021 only. The amounts to be transferred are limited to revenue not already assigned or encumbered by staff salary and benefits, or otherwise encumbered by federal law. There is a requirement that the fund or account transfer be revenue neutral for the district and not affect the receipt of its aid or levy. Board approval is required along with being well documented in the accounting records.

Debt Service Cash Flow
For fiscal 2021 only, a school district unable to make a required debt service payment because of an anticipated delay in property tax receipts may apply for modified cash flow payments under Minnesota Statutes, section 127A.45. The school district must apply in the form and manner specified by the commissioner of education and the commissioner must adjust the timing of Integrated Department of Education Aids System (IDEAS) state aid payments accordingly.

The following provisions were passed as part of the 1st special session.
Transportation Contracts
Contracts for the transportation of children or the purchase of fuel (vehicle or heating) are limited to 10 years in duration.
Referendum Notice
For referendum notices mailed on or after July 1, 2020, the maximum notice period was extended from 30 to 45 days.

APPENDIX C

TECHNICAL UPDATE

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 was to be effective for reporting periods beginning after December 15, 2019. However, due to the impact of Covid-19, the effective date was moved back one and a half years to reporting periods beginning after June 15, 2021. 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 leased 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. Initially effective for reporting periods beginning after December 31, 2019 but postposed to reporting periods beginning after December 15, 2020. 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. Initially effective for reporting periods beginning after December 15, 2018 but postposed to reporting periods beginning after December 15, 2019.

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. Initially effective for reporting periods beginning after December 15, 2020 but postposed to reporting periods beginning after December 15, 2021.

GASB Statement No. 92 – Omnibus 2020

The primary objectives of this statement are to enhance comparability and consistency by addressing practice issues that have been identified during implementation and application of certain GASB statements.

This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers

GASB Statement No. 92 – Omnibus 2020 (Continued)

- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

This statement clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units. It also modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. The statement also establishes accounting and financial reporting requirements for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans and modifies the investment valuation requirements for all Section 457 plans. The requirements related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. Requirements relating to the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans are effective immediately.