

September 20, 2018

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**



Mary Reedy, CPA  
Principal



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

**EXECUTIVE AUDIT SUMMARY (EAS)**

**JUNE 30, 2018**



**GLENCOE-SILVER LAKE SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
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JUNE 30, 2018**

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**EXECUTIVE AUDIT SUMMARY (EAS) FOR  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
YEAR ENDED JUNE 30, 2018**

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, 2018.

**Audit Opinion**

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

**Internal Control Over Financial Reporting**

Two material weaknesses in internal control were identified. One is related to oversight of the financial reporting process, while the other is related to a prior period adjustment for the capitalization of construction in progress expenditures from Fiscal year 2017.

**Yellow Book Compliance Finding**

There were no separate yellow book compliance findings reported.

**Single Audit**

There was one internal control finding noted in our testing of the Child Nutrition Cluster program related to controls over the verification special provision process..

**Minnesota Legal Compliance**

There were two Minnesota legal compliance findings for the fiscal year 2018. The first related to paying one invoice after 35 days of receiving that invoice. The second pertained to not attempting to receive more than one quote for a contract between \$25,000 and \$100,000.

**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 was one finding over compliance with the Manual for Activity Fund Accounting which was related to one inactive student activity account that was not closed and transferred to other active student activity accounts.

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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, 2018, and have issued our report thereon dated September 20, 2018. 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.

As described in Notes 8 and 12, during the fiscal year ended June 30, 2018, the District changed accounting policies related to its accounting for Other Postemployment Benefits by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Accordingly, this change in principle resulted in the restatement of beginning net position related to the District's increase in Net Other Postemployment Benefits Liability. Postemployment Benefits Other than Pensions were previously measured under GASB No. 45.

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.

The District's Internal Service fund has not reimbursed the District's governmental funds for the cost of other postemployment benefits paid to retirees by those funds for the few years. An internal service fund should only be used to account for activity that is charged to funds on a cost reimbursement basis. A significant and growing surplus over time is incompatible with the cost-reimbursement character of the fund type. We recommend the District evaluate its treatment of and plans for this fund going-forward.

## **Significant Audit Findings (Continued)**

### **Qualitative Aspects of Accounting Practices (Continued)**

#### **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
- Other postemployment benefits payable
- Net pension liability and related deferred inflows and deferred outflows of resources

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 2017-18. 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 2018 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 2017-18. 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.

## **Significant Audit Findings (Continued)**

### **Qualitative Aspects of Accounting Practices (Continued)**

#### **Accounting Estimates (Continued)**

Management's estimate of total other postemployment benefits payable 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.

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 determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following summarizes uncorrected misstatements of the financial statements:

- The District posted a reclassification entry in the prior year that was meant to move revenue from one fund to another, they accidentally decreased revenue and cash in both funds by the amount of \$14,177. This resulted in cash and ending fund balance of the debt service fund being understated \$28,354 as of June 30, 2017. As this is immaterial to the debt service fund, the error was corrected through current year activity in the debt service fund during the year ended June 30, 2018.

***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 20, 2018.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of 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 20, 2018.

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 20, 2018.

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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 20, 2018

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, 2018, 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:

#### **Oversight of the Financial Reporting Process**

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)**

**Prior Period Adjustment – Capital Assets**

In relation to the governmental activities, the District had a material amount of expenses that were not properly capitalized to Construction in Progress at June 30, 2017. Therefore, capital assets and net position were understated as of June 30, 2017. This required an adjustment to beginning net position when presenting the June 30, 2018 financial statements.

**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**

Austin, Minnesota  
September 20, 2018

# **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 9 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.

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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, 2018**

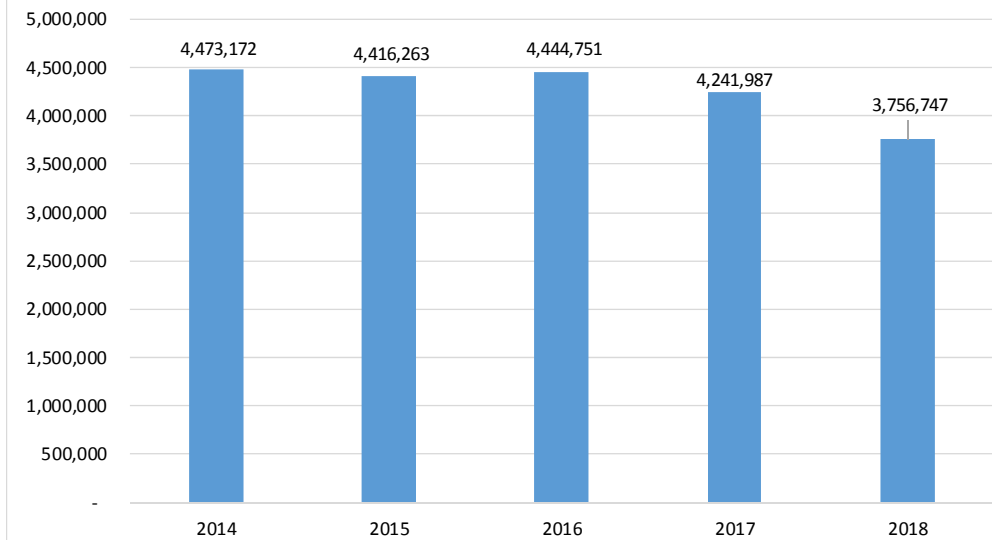
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	Nonspendable & Unassigned	Noncapital Related Restrictions	Capital Related Restrictions			Total	Grand Fund Total
			Operating Capital	Health & Safety	Long-Term Facility Maintenance		
Revenues	\$ 15,778,477	\$ 1,344,274	\$ 390,773	\$ 24,039	\$ 603,241	\$ 1,018,053	\$ 18,140,804
Expenditures and							
Operating Transfers	16,267,144	1,320,380	510,794	-	535,943	1,046,737	18,634,261
Excess (Deficit) Revenues							
Over Expenditures	(488,667)	23,894	(120,021)	24,039	67,298	(28,684)	(493,457)
Fund Balance June 30, 2017	4,254,985	154,337	845,404	(65,640)	-	779,764	5,189,086
Fund Balance June 30, 2018	<u>\$ 3,766,318</u>	<u>\$ 178,231</u>	<u>\$ 725,383</u>	<u>\$ (41,601)</u>	<u>\$ 67,298</u>	<u>\$ 751,080</u>	<u>\$ 4,695,629</u>



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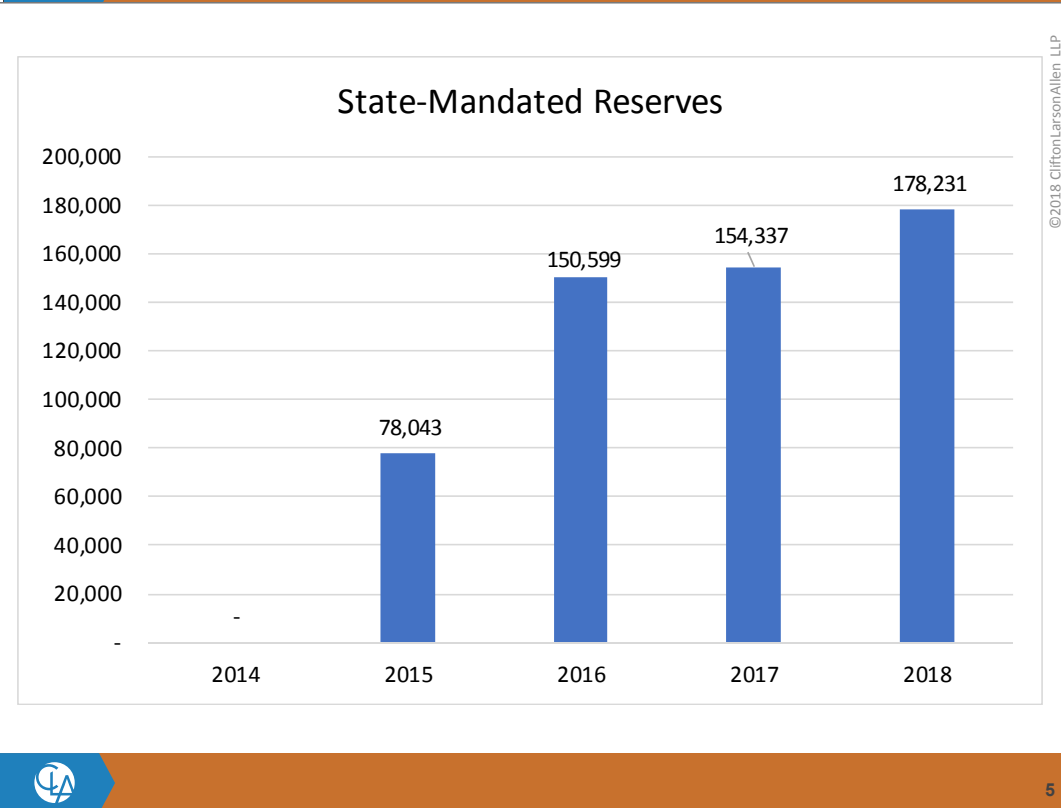
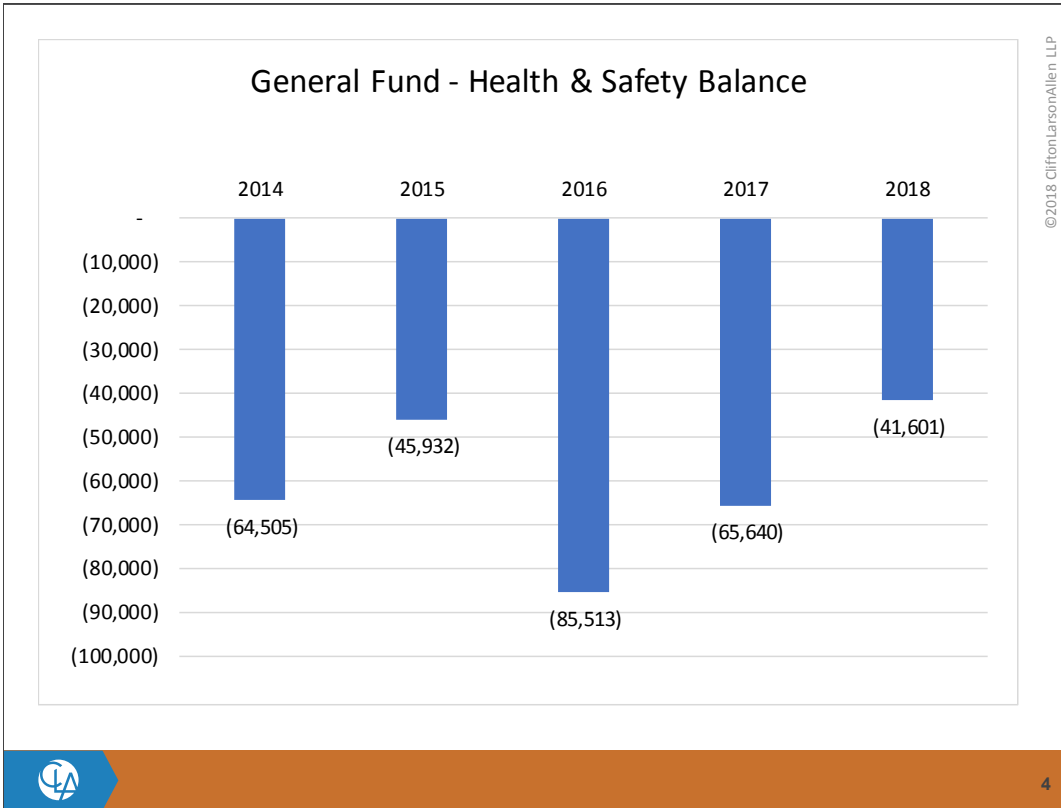
**General Fund - Unassigned Balances**

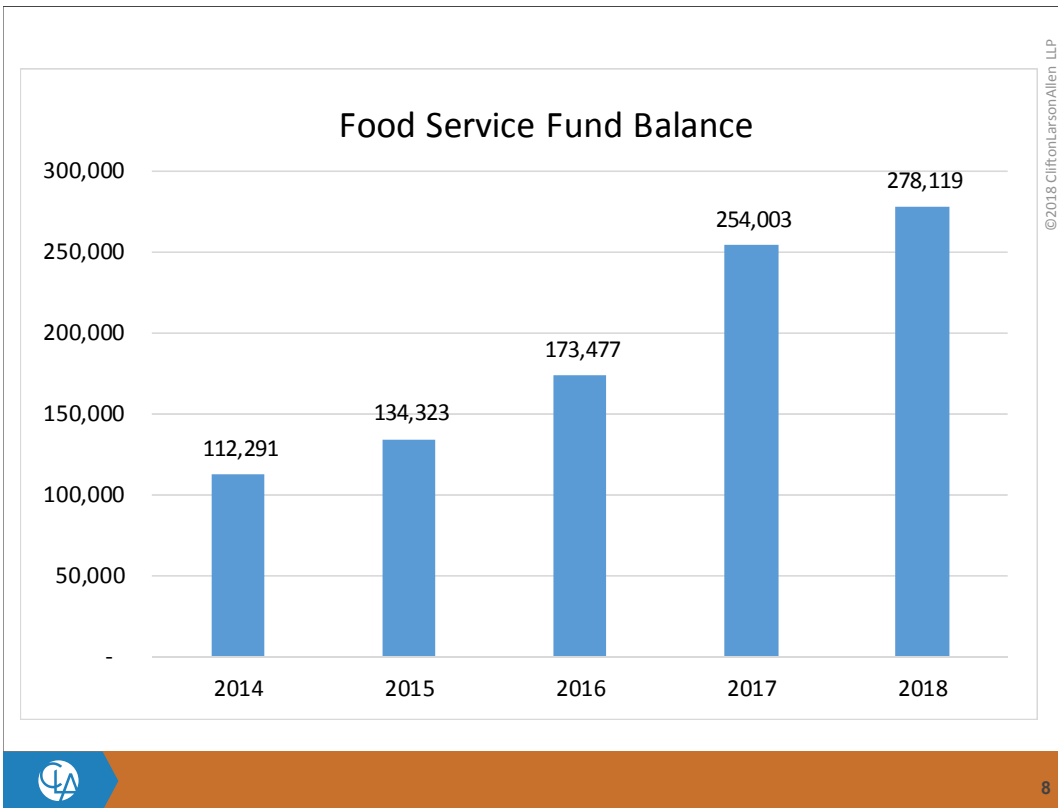
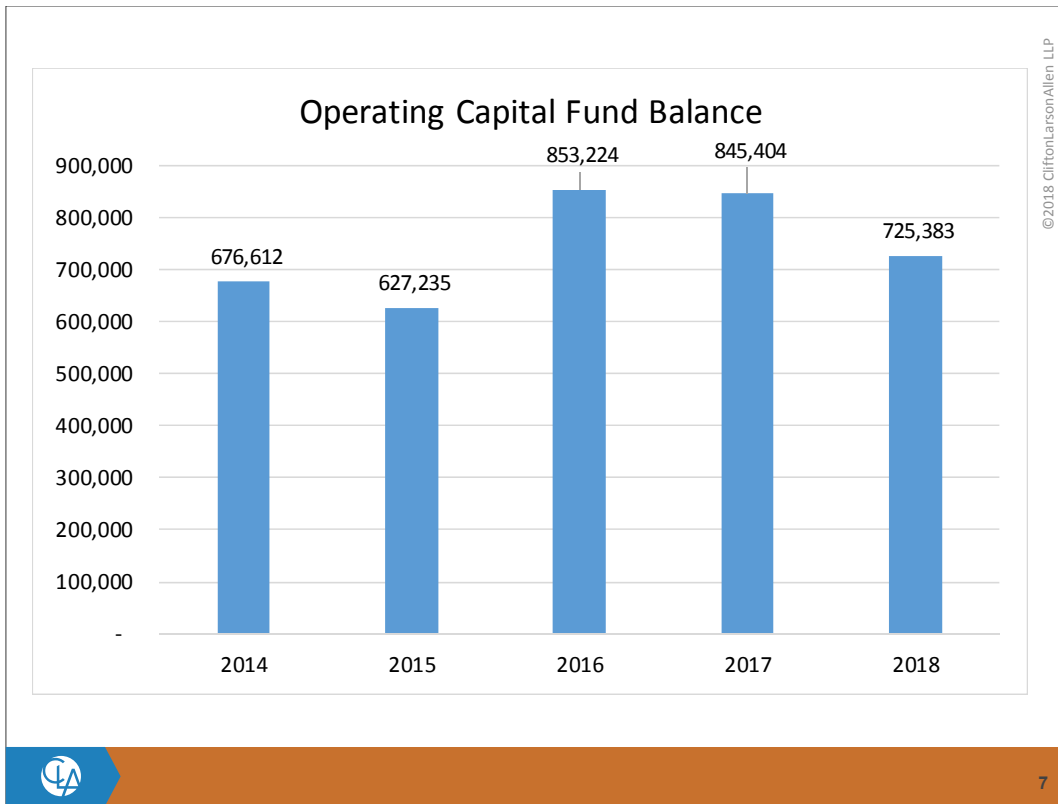


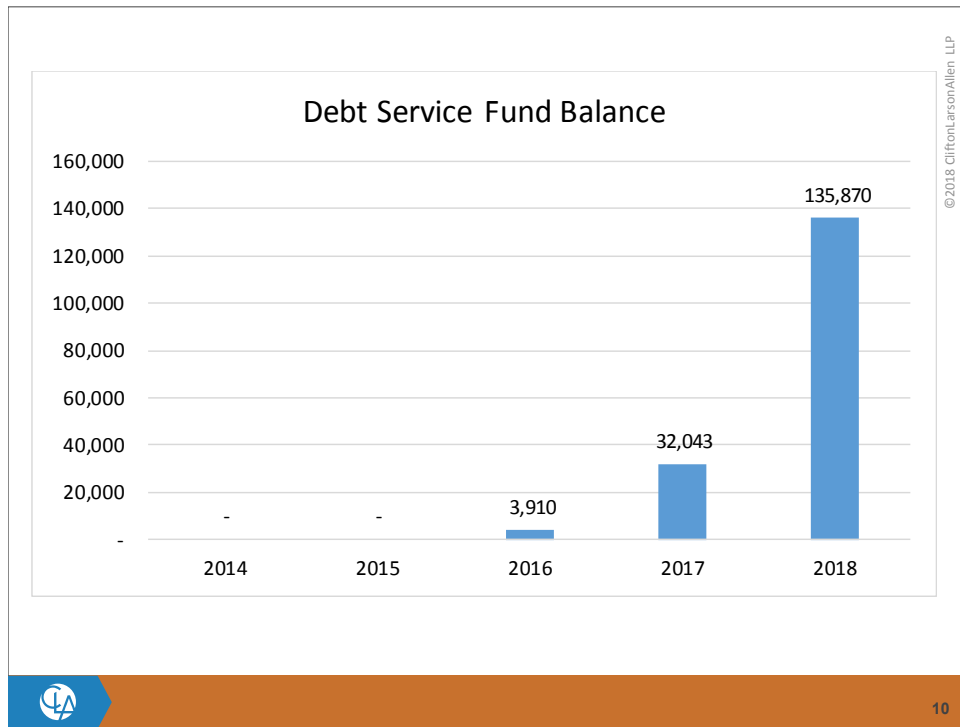
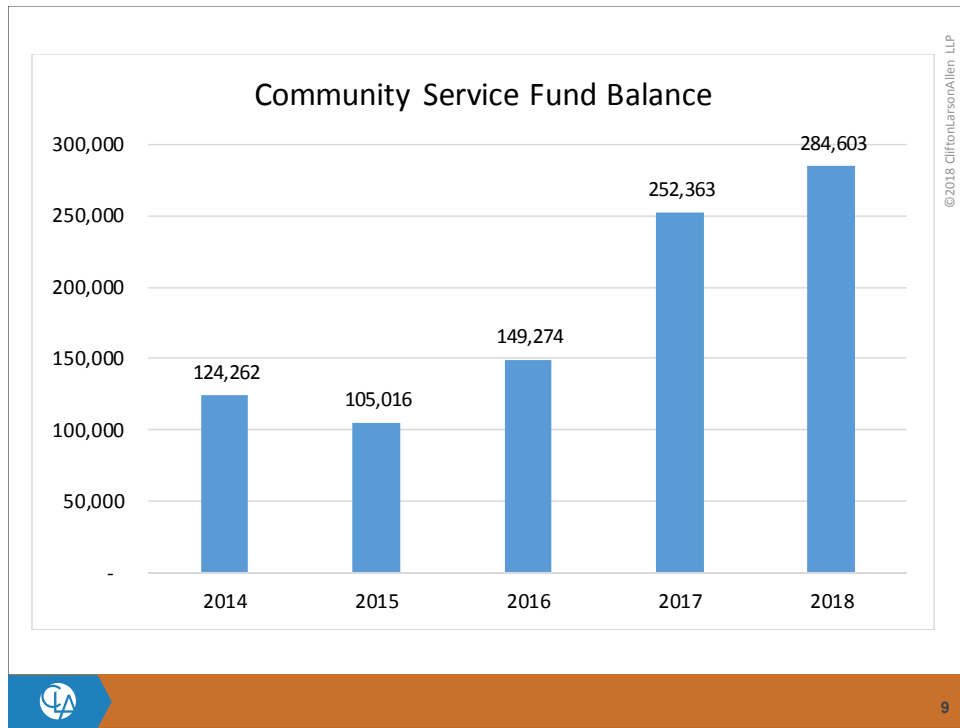
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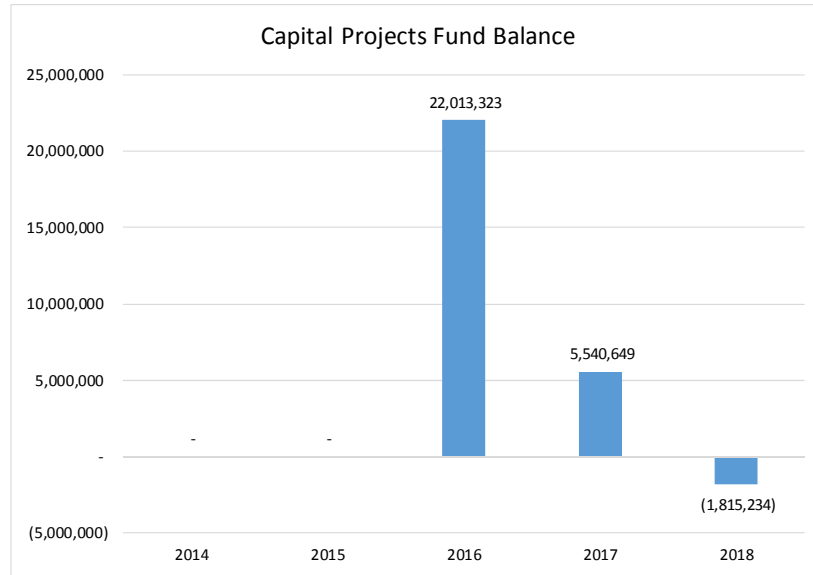


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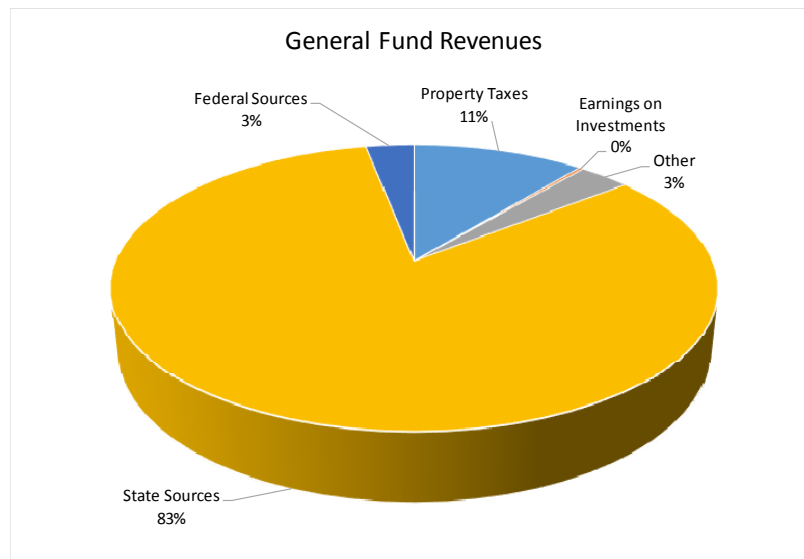




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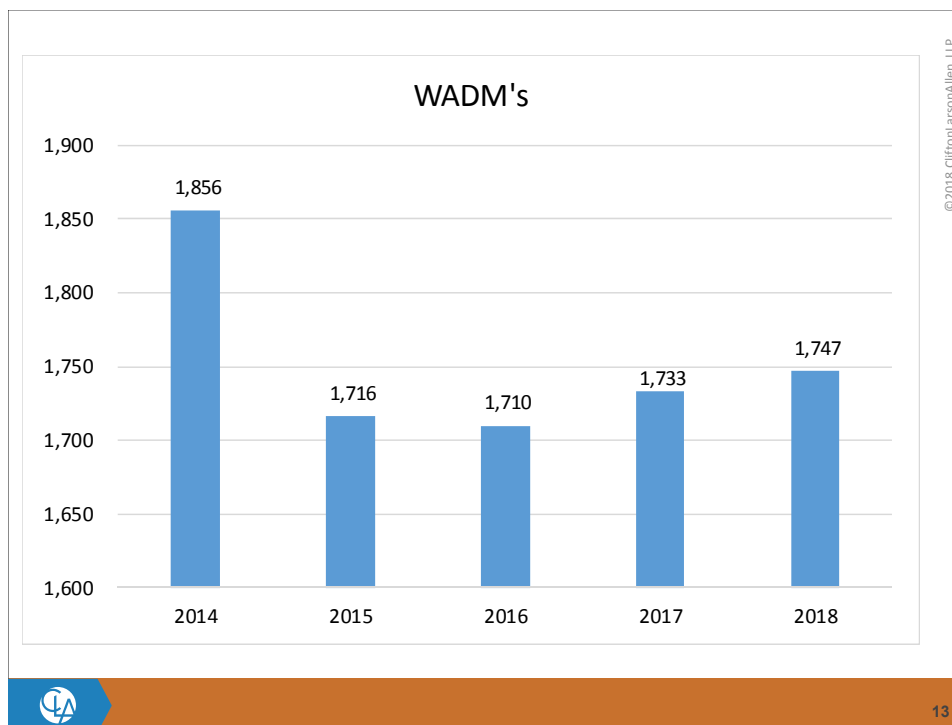
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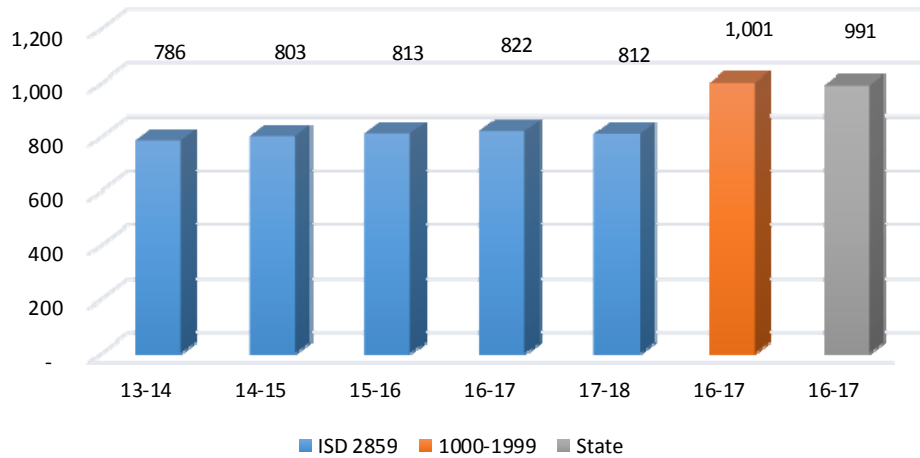
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## Districts & School Administration



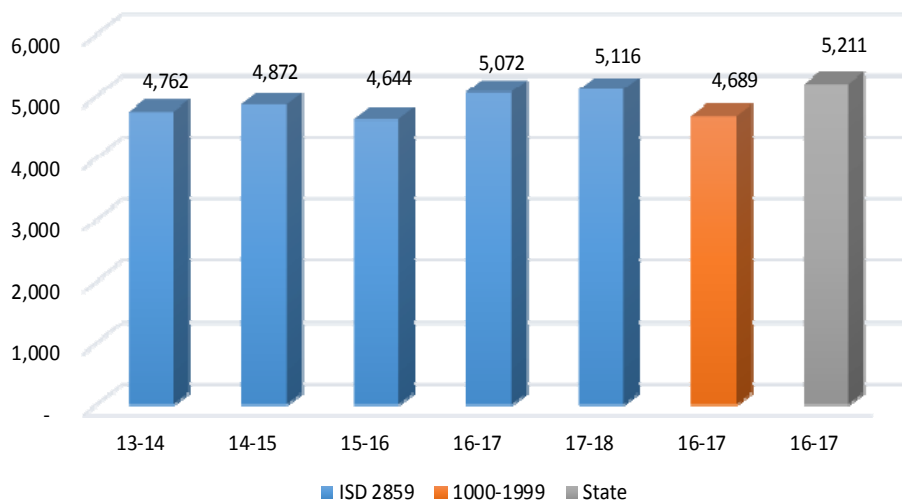
District and School Admin - all costs related to providing administration to the District (Board of Education, Superintendent, Principals, Line Administrators, etc.).

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## Regular Instruction



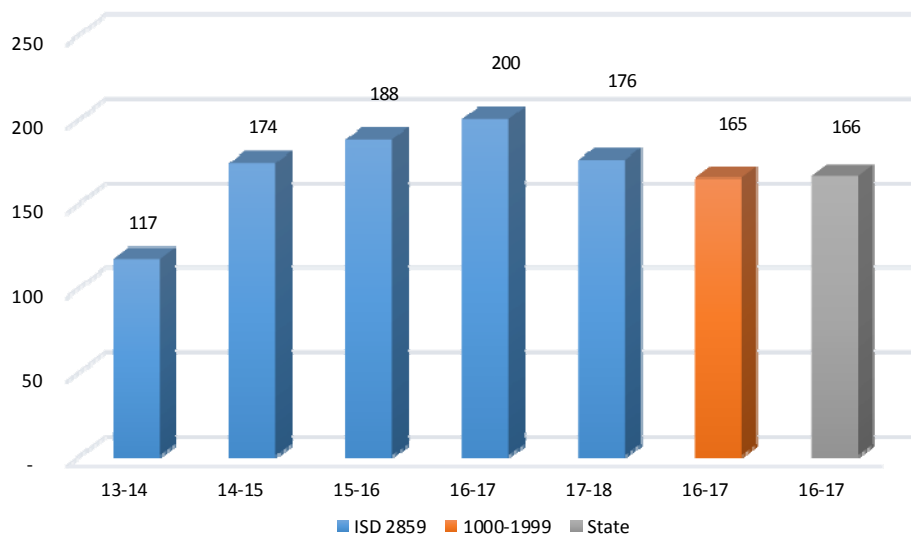
Regular Instruction - includes all activities dealing directly with the teaching of pupils including co-curricular and extra-curricular activities (excluding special ed, vocational and community education instruction).

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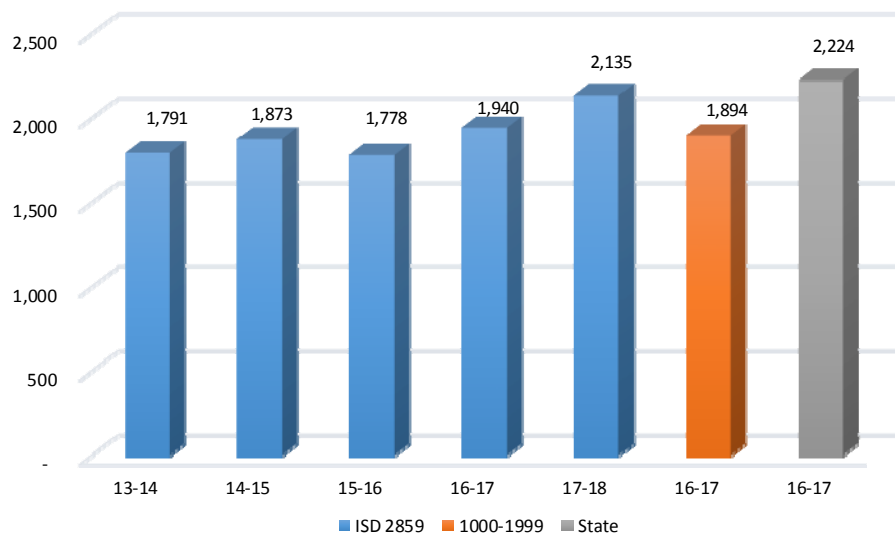
### Vocational Instruction



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



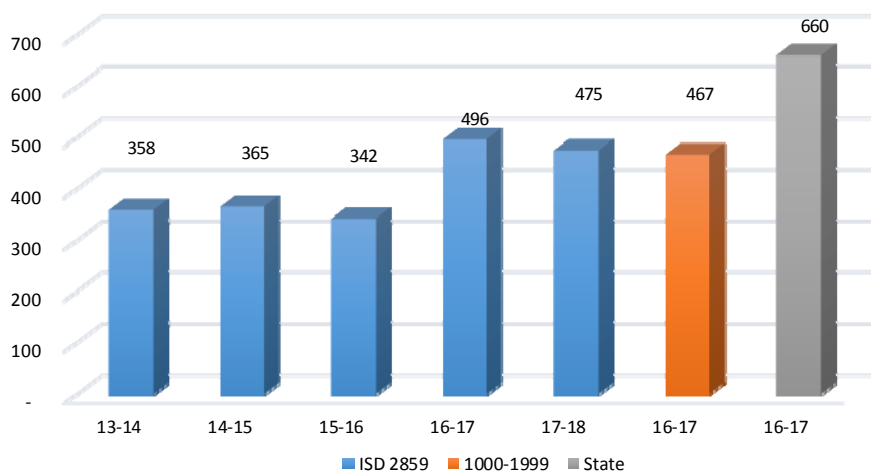
### Special Education



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



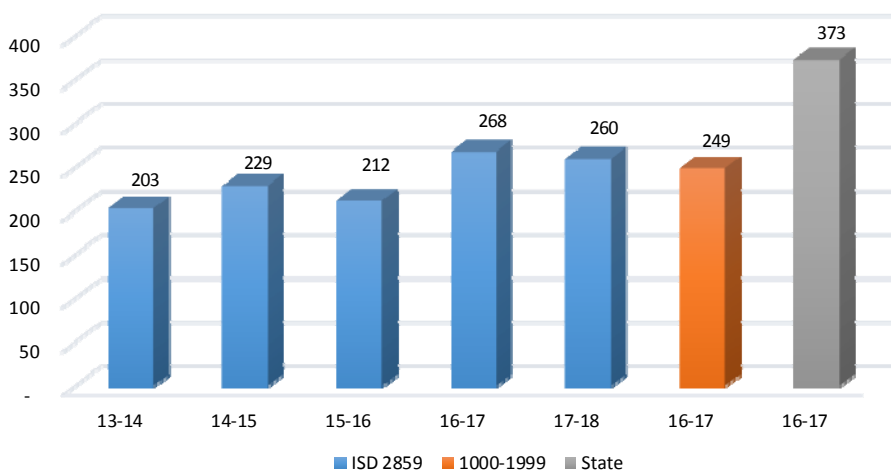
### Instructional Support



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



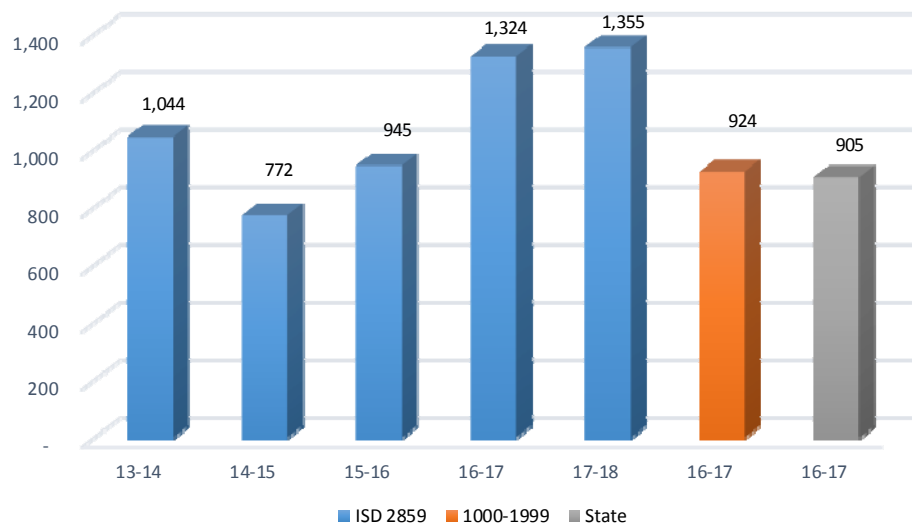
### Pupil Support Services



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



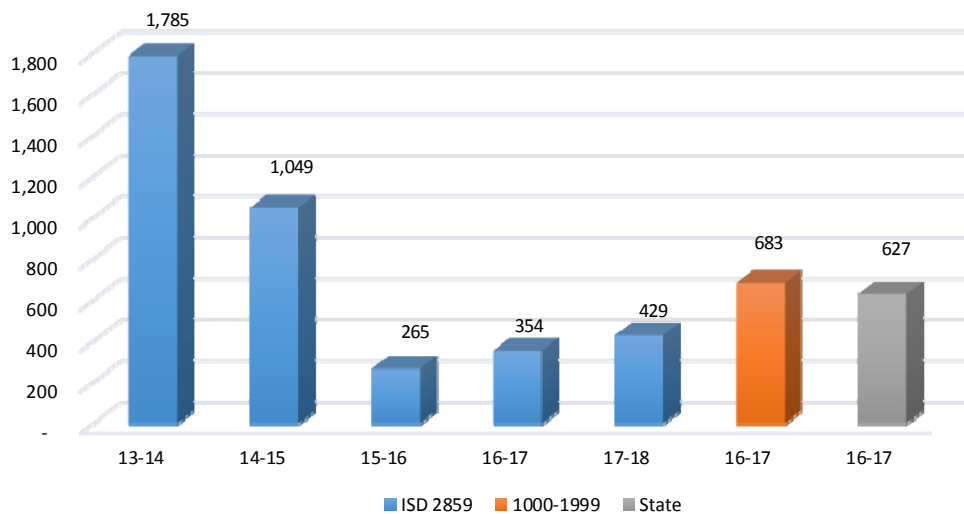
### Sites, Buildings & Equipment



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

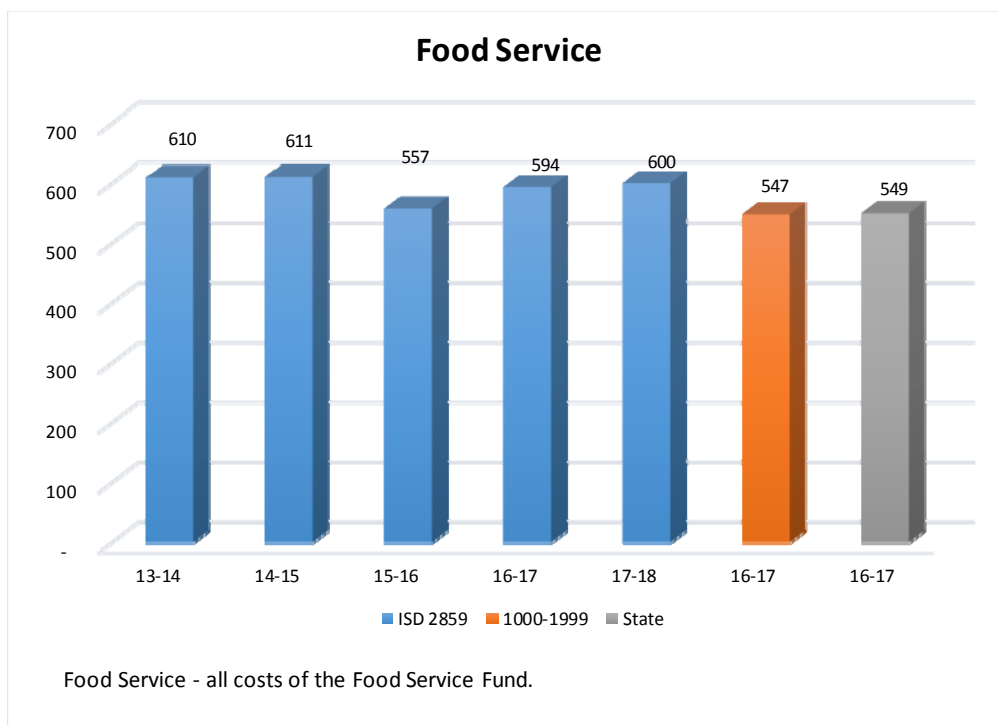
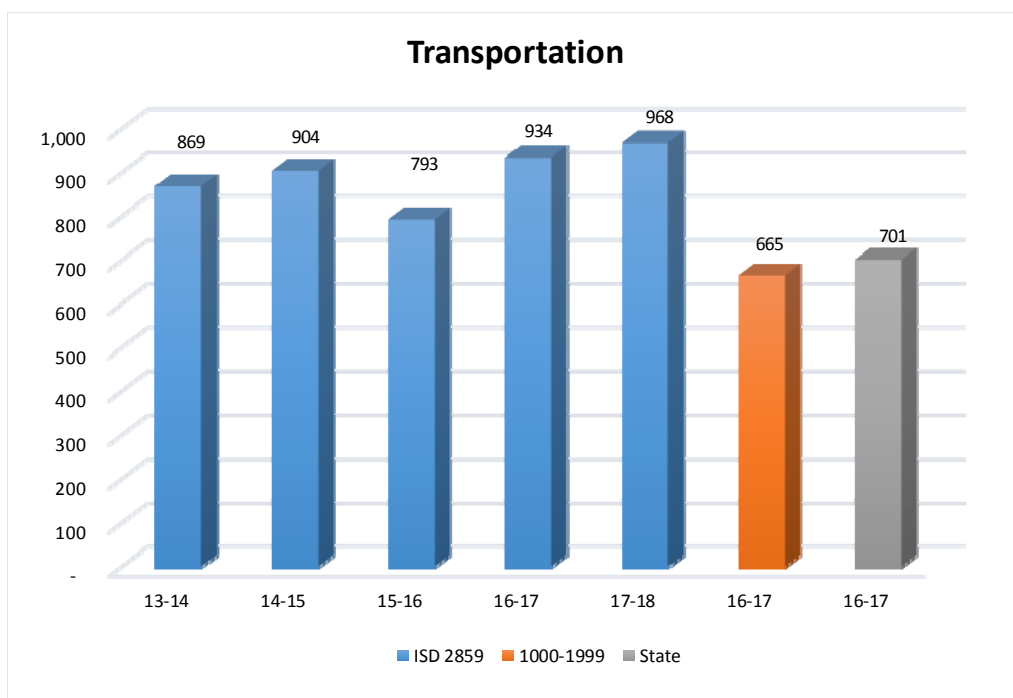


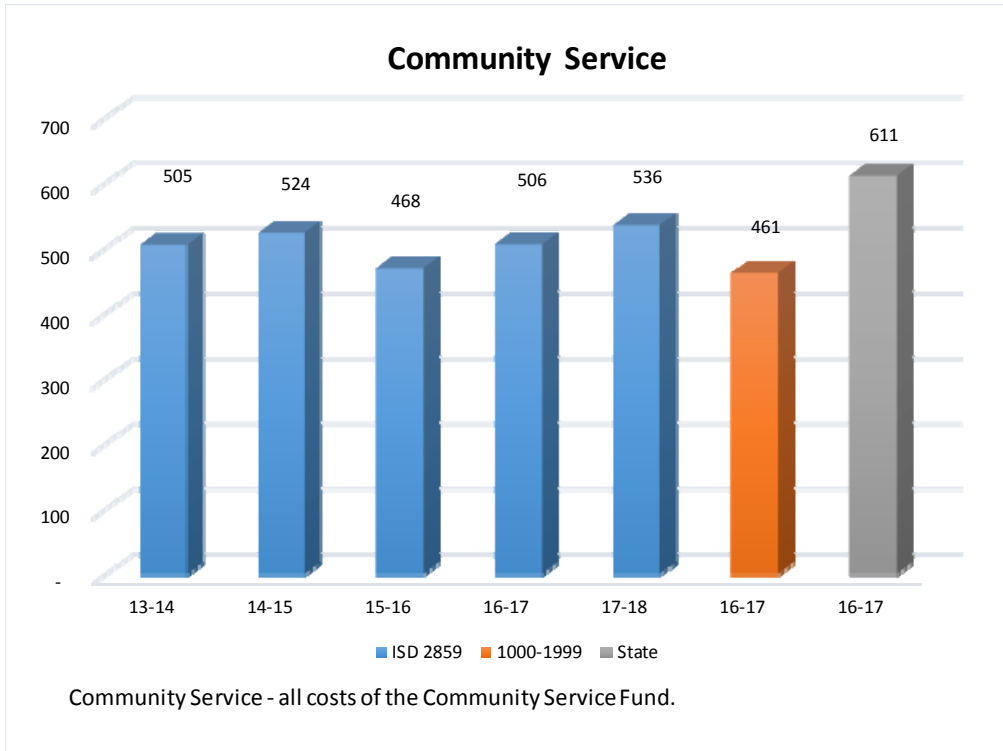
### Capital Expenditures



Capital Expenditures - all capital expenditures charged to operating funds.



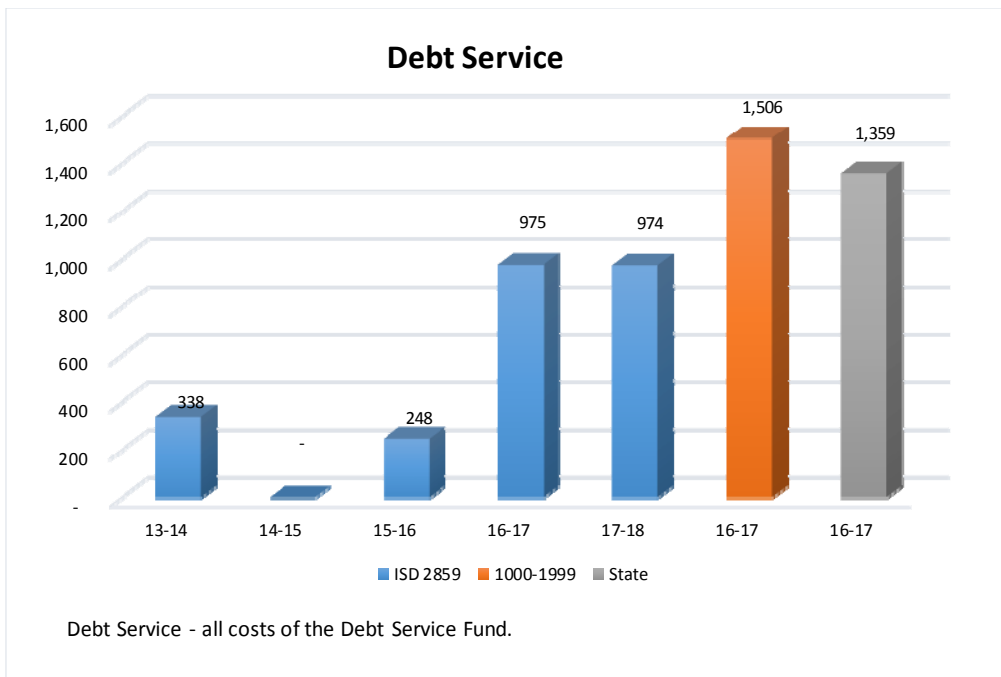




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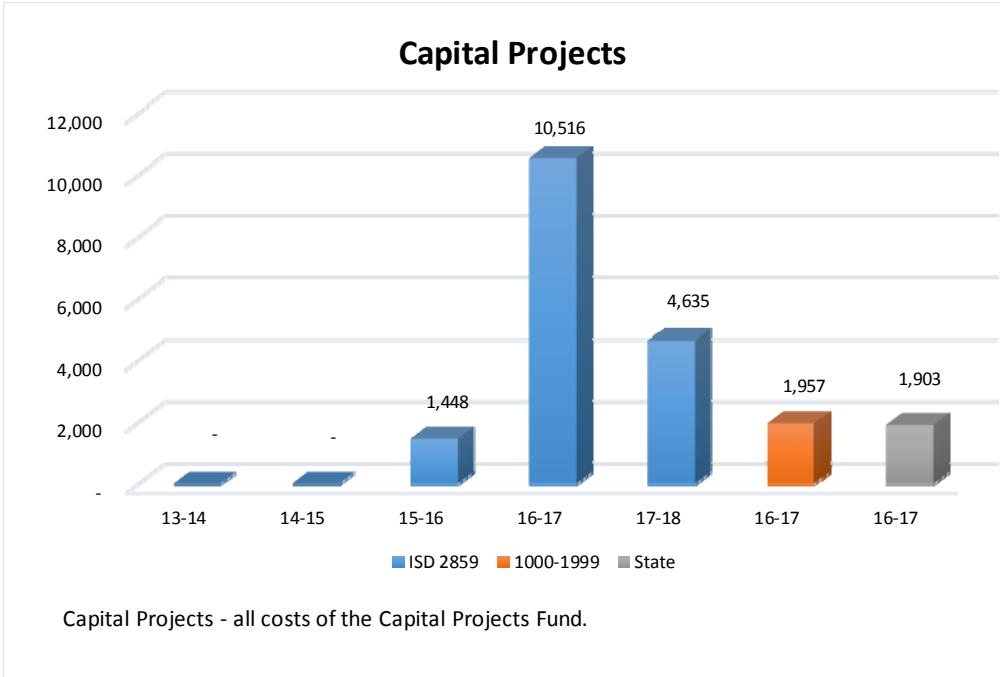
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## **APPENDIX B**

### **LEGISLATIVE ACTIVITY**

What follows are some education-related highlights of recent legislative sessions 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 (2017 Legislative Session)**

The General Education Revenue formula allowance was increased by 2% (by \$121 per pupil unit to \$6,188) for fiscal year 2018 and by another 2% (by \$124 per pupil unit to \$6,312) for fiscal year 2019 and later.

#### **ECFE Funding (2017 Legislative Session)**

The ECFE Allowance remains linked to General Ed formula allowance. ECFE allowance was increased from \$139.54 to \$142.32 for fiscal year 2018 and \$145.18 for fiscal year 2019 and later due to formula allowance increase.

#### **School Readiness Plus (SR+) (2017 Legislative Session)**

A new four-year-old program was created to prepare children for kindergarten. Both school districts and charter schools are authorized to contract for the delivery of an SR+ program. The new School Readiness Program was created for fiscal years 2018 and 2019 only (\$50 million for each year). All school district applicants meeting program requirements will be rank-ordered based on three criteria: free and reduced lunch concentration of students in kindergarten as of October 1 of the previous fiscal year; proximity of a three-star or four-star Parent Aware rated program; and whether the district has implemented a mixed delivery program. The cap on the Voluntary PreK program was changed from a limit on the state total aid entitlement to a limit on the number of participants.

#### **American Indian Tribal Contract Aid (2017 Legislative Session)**

The maximum aid per pupil unit was continued at the fiscal 2017 level of \$3,230 for fiscal years 2018 and 2019 only, instead of allowing it to decrease to \$1,500 beginning in fiscal 2018 as provided in current law. The decrease to \$1,500 will now occur beginning in fiscal year 2020 unless a change is enacted before that.

#### **Lead in School Drinking Water (2017 Legislative Session)**

The Commissioner of Health and Education is required to develop a model plan to require school districts to test for lead in school drinking water. School boards may adopt the model plan or develop an alternative plan to test water in the schools for lead. The plan requires testing at least every five years, testing must begin by July 1, 2018, and be completed within five years. School districts are allowed to include the costs for lead testing and remediation in their long-term facilities maintenance plan. School districts must make lead test results available to the public and notify parents that this information is available.

The remainder of items were the result of the 2018 legislative session.

## **Pension Reform Bill**

One of the main outcomes of the 2018 legislative session that was passed and signed into law was a pension reform bill. Key provisions impacting the Teacher Retirement Association (TRA) and Public Employees Retirement Association Boards (PERA) were as follows:

### **TRA**

- Increases the TRA employer contribution by 1.25% over six years, beginning July 1, 2018.
- State funding to cover the employer increase through the pension adjustment mechanism.
- Increases the employee contributions by 0.25% in 2024.
- Reduces the investment assumed rate of return from 8.5% to 7.5%.
- Eliminates the automatic cost-of-living adjustment (COLA) triggers and reduces the COLA from 2% to 1% for five years and then increases the COLA 0.1% per year for five years until it reaches 1.5%.

### **PERA**

- Makes no changes in employee and employer contributions.
- Reduces the assumed rate of return from 8% to 7.5%.
- Replaces the current cost-of-living adjustment (COLA)—1% with increase to 2.5% when plan funding improves—with an adjustment based on one-half of the consumer price index, with a maximum of 1.5% and a minimum of 1%.
- Leaves an estimated contribution sufficiency equal to roughly 1% of salary to buffer against future uncertainty.

### **St. Paul Teacher Retirement Fund Association (SPTRFA)**

A comprehensive package similar to the TRA is included for the SPTRFA with direct appropriation. The bill reduces SPTRFA's liabilities by nearly \$100 million and allows the fund to reach "fully funded" status over the 30-year amortization period.

## **School Safety Grants**

This \$25,000,000 is the only new money made available for school districts to increase school safety. This grant program will be administered by the Minnesota Department of Education (MDE).

Criteria are as follows:

- maximum grant is \$500,000;
- half of the money must go to school districts outside the 11-county metropolitan area;
- grants may be used to predesign, design, construct, furnish, and equip school facilities including renovating and expanding existing buildings and facilities; and
- grants will be awarded on a first-come/first-served basis.

## **Uniform Municipal Contracting Law (Includes School Districts)**

For contracts to purchase or sell/dispose of goods/services entered into on or after August 1, 2018, the following estimated dollar thresholds have increased:

- Sealed bids or direct negotiations: If the amount of the contract is estimated to exceed \$25,000 but not to exceed \$175,000 (previously \$100,000), the school district has the option of using either sealed bids or direct negotiation.
- Sealed bids: If the amount of the contract is estimated to exceed \$175,000 (previously \$100,000), sealed bids are required.

# **APPENDIX C**

## **TECHNICAL UPDATE**

### **GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**

GASB Statement No. 75 addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. GASB 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and requires governments to report a liability on the face of the financial statements for the OPEB that they provide: Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

GASB 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances—called special funding situations—GASB 75 requires these governments to recognize in their financial statements a share of the other government's net OPEB liability. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

### **GASB Statement No. 85 – Omnibus 2017**

GASB Statement No. 85 addresses practice issues identified during implementation and application of certain GASB statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The statement is effective for reporting periods beginning after June 15, 2017.

### **GASB Statement No. 86 – Certain Debt Extinguishment Issues**

GASB Statement No. 86 improves the consistency of reporting for certain in-substance debt defeasance resulting from cash and other monetary assets from existing resources (not from the issuance of refunding debt) that are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement is effective for reporting periods beginning after June 15, 2017.

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

### **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. 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.

### **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.

### **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. Requires disclosure of additional essential information about debt. The statement is effective for reporting periods beginning after June 15, 2018.