



Board of Directors  
Chambersburg Area School District  
Chambersburg, Pennsylvania

We have completed our audit of the financial statements of the Chambersburg Area School District (the "School District") for the year ended June 30, 2018, and have issued our report thereon dated January 4, 2019.

We believe part of our responsibility, as your independent certified public accountants, is to bring to your attention matters for your consideration which may impact the operations of the School District. The following comments and suggestions cover such matters.

### ***STUDENT ACTIVITIES DEPOSITS***

During our transaction testing in the student activities funds, we noted that not all deposit tickets had descriptions. We recommend management retain detail of each receipt or write a description of the receipt directly on the deposit tickets to ensure that revenue is being recorded in the proper student activity accounts and appropriate support is maintained.

### ***FEDERAL PROCUREMENT THRESHOLDS***

Recently statutory changes have raised the procurement thresholds for federal program purchases. These changes were initiated by the National Defense Authorization Act and made applicable to all federal programs through an exception provided by the OMB (The Office of Management and Budget). These actions have raised the micro-purchase threshold from \$ 3,500 to \$ 10,000 and the simplified acquisition threshold from \$ 150,000 to \$ 250,000. We suggest that you review your policies to update them accordingly and ensure your federal purchasing processes are updated to reflect these changes.

### ***GASB 84 – FIDUCIARY ACTIVITIES***

The GASB has issued GASB Statement 84, which provides guidance on the identification, account, and financial reporting of fiduciary activities. Control is established if the government holds the assets or may direct the use, exchange, or employment of the assets.

GASB Statement 84 identifies other activities as fiduciary activities if all the following criteria are met:

1. The government controls the assets associated with the activity
2. The assets are not derived from the government's own-source revenues, government-mandated nonexchange, or voluntary nonexchange transactions (except for pass-through grants with which the government has no administrative or direct financial involvement).
3. The assets match at least one of the following criteria:
  - a. The assets are administered through a trust committed to providing benefits to recipients. The government is not a beneficiary of the trust, and the assets are protected from the government's creditors.

- b. The assets are for the benefit of individuals, and the government does not have administrative or direct financial involvement with the assets nor are the assets derived from the government providing goods or services to those individuals.
- c. The assets are for the benefit of other entities and are not derived from the government providing goods or services to those entities.

This statement requires that assets held in a Custodial Fund be reported separately on the Statement of Fiduciary Net Position, which is currently known as an Agency Fund. In addition, the statement now requires the activity of a Custodial Fund to be presented in the Statement of Changes in Fiduciary Net Position. This statement is effective for the June 30, 2020 fiscal year. We recommend management review any assets held by the School District in a fiduciary/custodial capacity, as defined above, to ensure proper implementation of this standard.

### ***GASB 87 – LEASE ACCOUNTING***

The GASB has been monitoring and observing the FASB process for addressing lease accounting for nongovernmental entities for the past several years. Now that their process is complete, the GASB has released guidance for lease contracts for nonfinancial assets to improve accounting and financial reporting for leases by both lessors and lessees. The following definition for the term “lease” is included in the standard: “a contract that conveys the right to use a nonfinancial asset for a period of time in an exchange or exchange-like transaction”. It excludes contracts that transfer ownership or contain a bargain purchase option.

The revised financial reporting for lessees with long-term leases (more than 12 months including options to extend) includes recording an intangible asset representing the right to use the leased asset, a corresponding liability for lease payments, amortization expense, and interest expense. For lessors with long-term leases, the standard now requires the recording of a receivable for the right to receive lease payments, a corresponding deferred inflow of resources, lease revenue, and interest revenue. This change will affect the government wide statements only, not fund level, unless a capital lease exists in a proprietary fund as they are recorded on an accrual basis.

The lease term would include the noncancellable term ***plus any extensions*** that are probable or less any termination periods that are probable. The lease term would only be reassessed if a probable event did not occur.

This statement is effective for the June 30, 2021 year. We recommend that management review **all** leases that the School District is currently entered into with the IT Department, from both the lessee and lessor perspective, and begin to evaluate the financial reporting impact. While the School District does not utilize a significant number of leases with its operations, we feel that it is still important to begin reviewing all lease agreements prior to implementation of GASB 87. We will be assisting management with the implementation of the standard.

### ***GASB 89 – ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD***

The GASB has issued Statement No. 89, which provides guidance on the accounting and financial reporting for governments that incur interest cost during construction of capital assets. Previously, governments followed GASB Statement No. 62 and capitalized interest costs incurred during construction for their business-type activities and enterprise funds. Under GASB Statement No. 89, governments should recognize interest cost incurred before the end of a construction period as an expense during the period in which it is incurred. Governments should not capitalize interest as part of the historical cost of capital assets.

This statement is effective for the fiscal year ending June 30, 2021, but early adoption is permitted. The School District should consider early implementation of this statement and account for interest costs accordingly.

### ***GASB PRELIMINARY VIEWS DOCUMENT***

The GASB has issued two preliminary views documents for public comment. The GASB issues preliminary views documents in advance of issuing a final statement/standard. These two preliminary views documents relate to improving the financial reporting model and recognition of elements in the financial statements and could have a significant impact on the existing financial reporting model utilized by governmental entities.

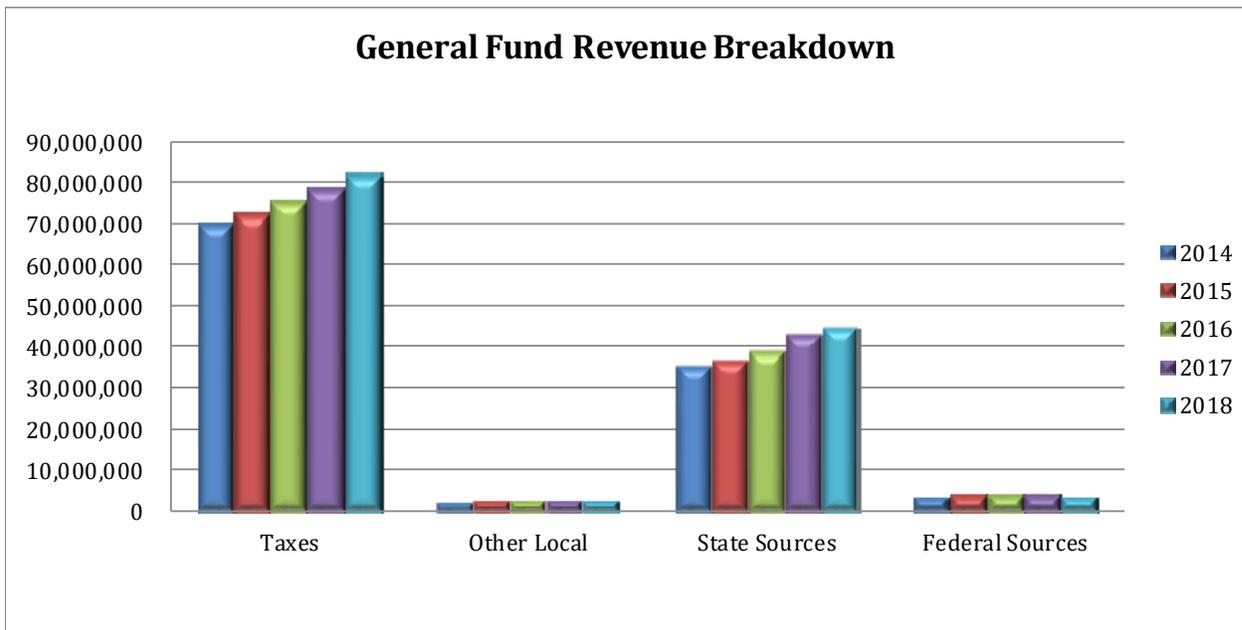
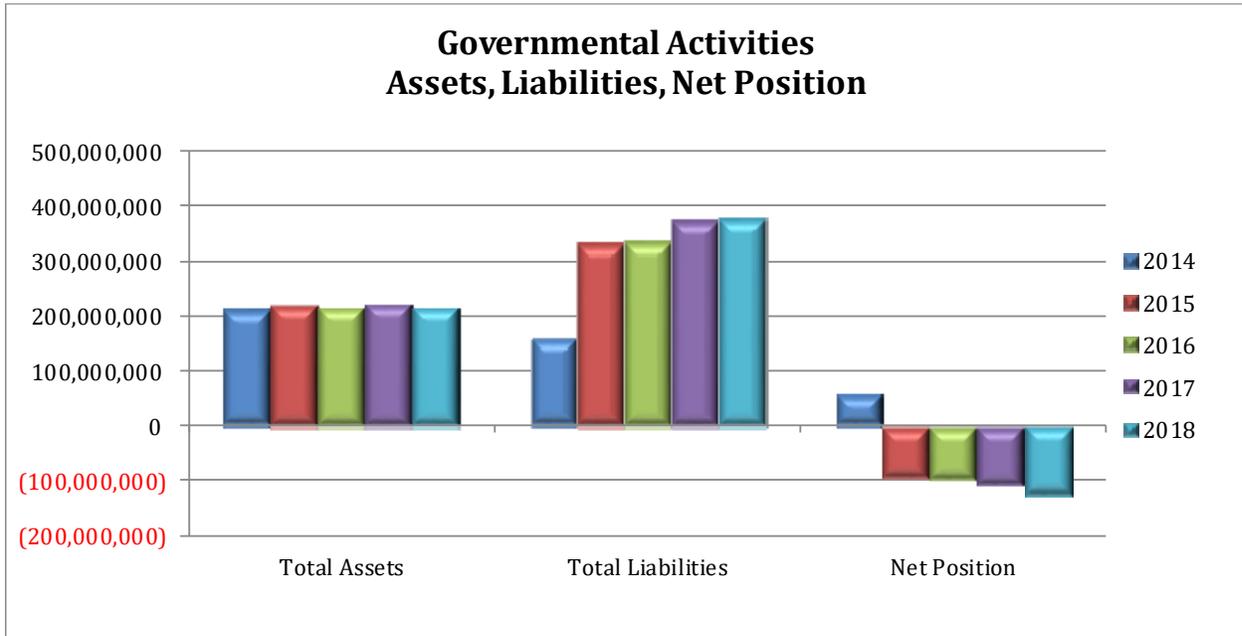
The goal of the financial reporting model preliminary views document is to improve financial reporting by enhancing comparability and understandability in financial reporting by state and local governments in several ways, as well as by providing additional decision-useful information. GASB is reviewing the format of the statement of activities and considering whether a government-wide statement of cash flows should be required. In addition, for the governmental funds, GASB is considering a conceptually consistent measurement focus and basis of accounting in order to develop a presentation format for governmental fund financial statements. The definition of operating revenues and expenses and the description of nonoperating revenues and expenses that would replace varying government policies for preparation of proprietary fund resource flows statements would improve comparability. The addition of a subtotal for operating income (loss) and noncapital subsidies would improve the decision utility of that statement.

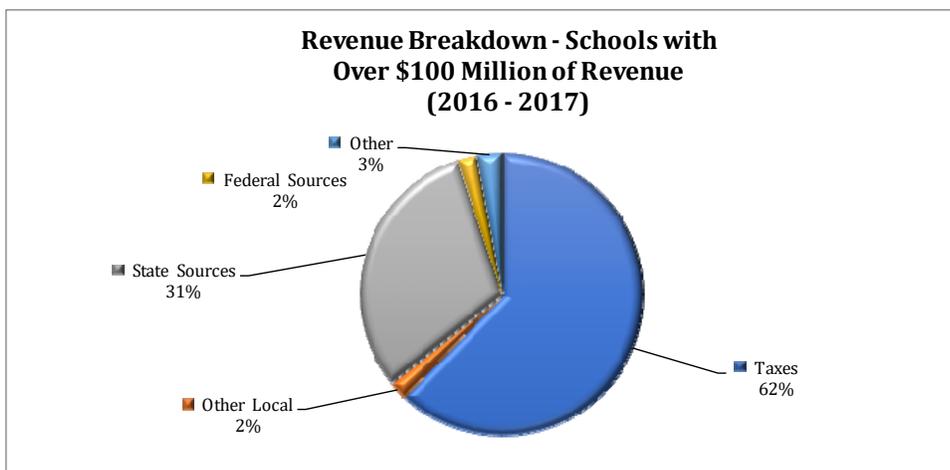
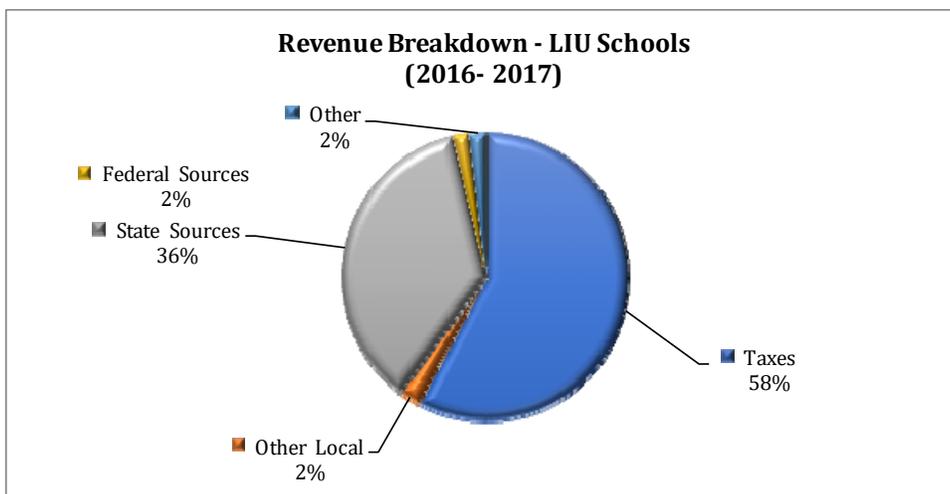
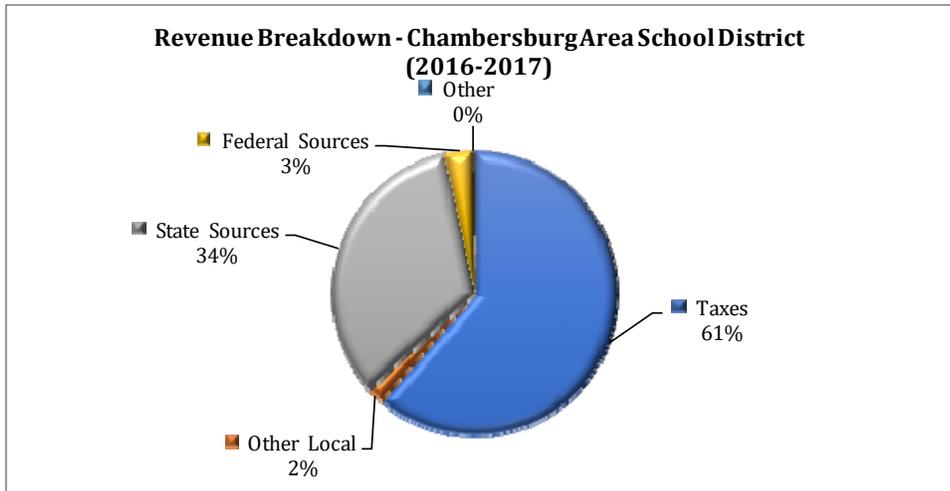
The goal of the elements in the financial statements preliminary reviews document is to improve the financial reporting by augmenting the framework through which the GASB can enhance consistency in future standards setting. This will be accomplished through the measurement focus of a specific financial statement to determine *what* items should be reported as elements of that financial statement and the related basis of accounting to determine *when* those items should be reported.

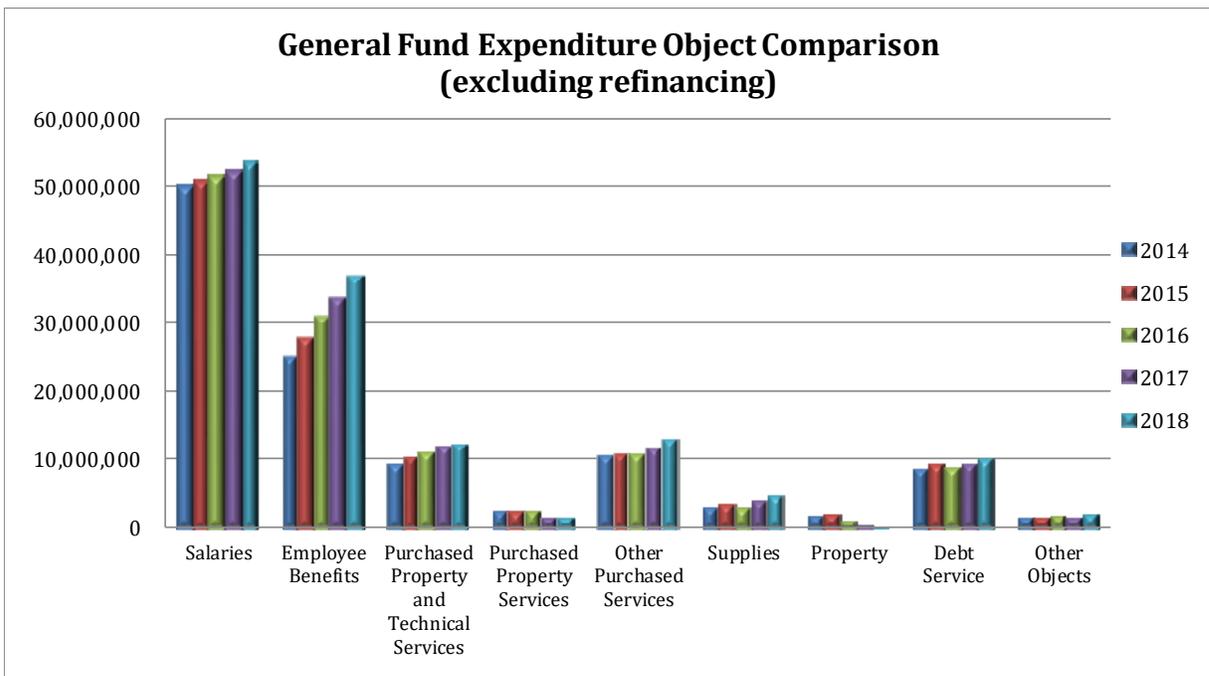
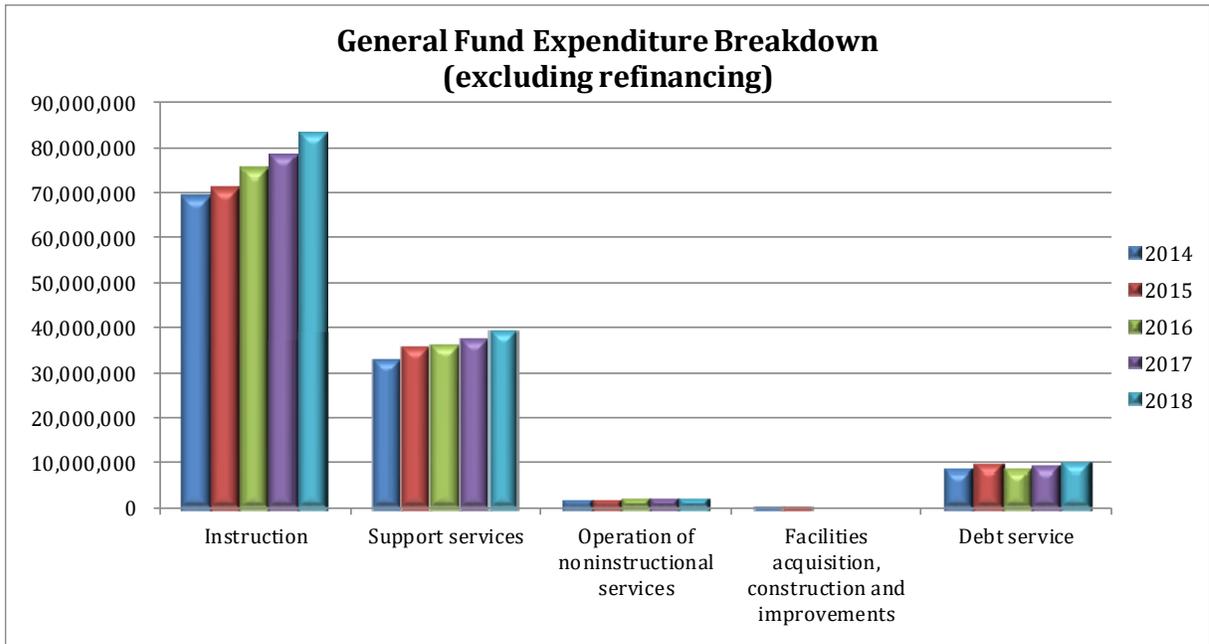
We will continue to monitor the progress of these items through GASB and will communicate in the future once the statements themselves are issued.

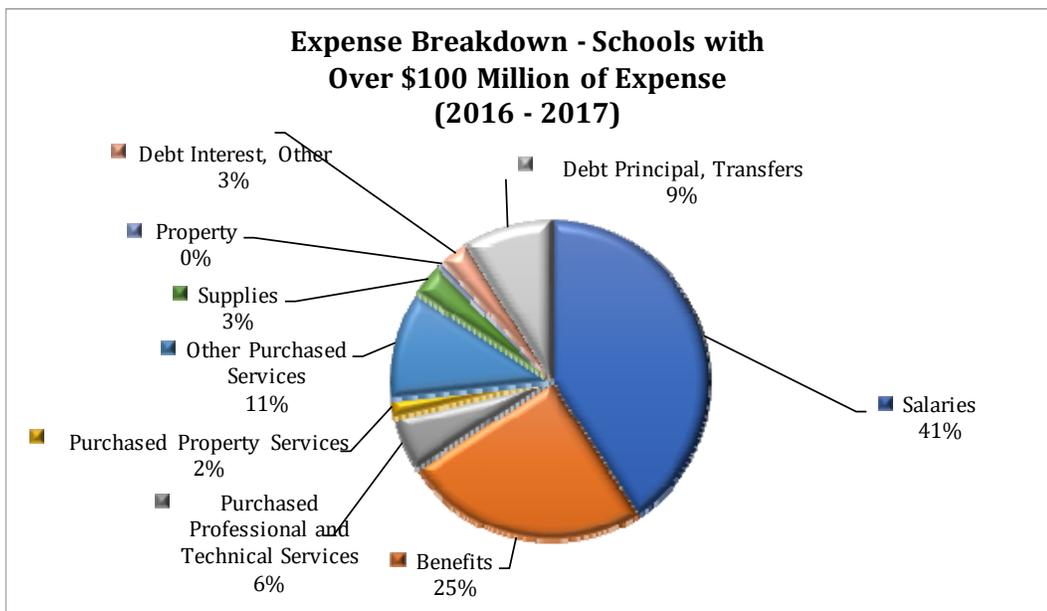
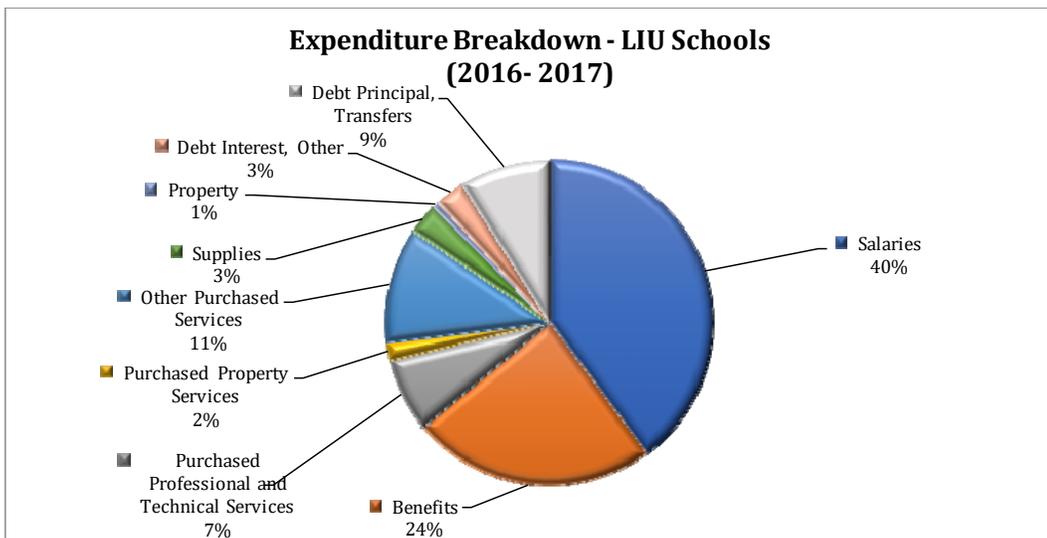
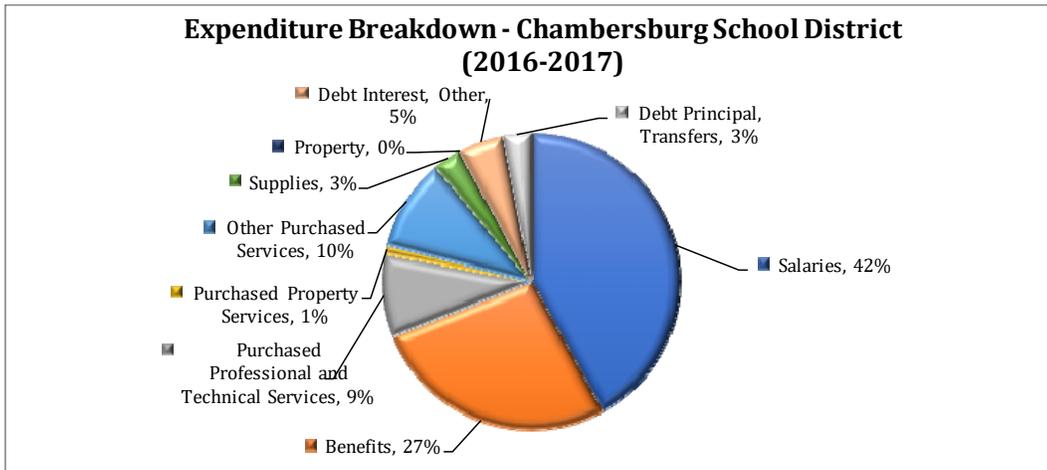
**GRAPHICAL ANALYSIS**

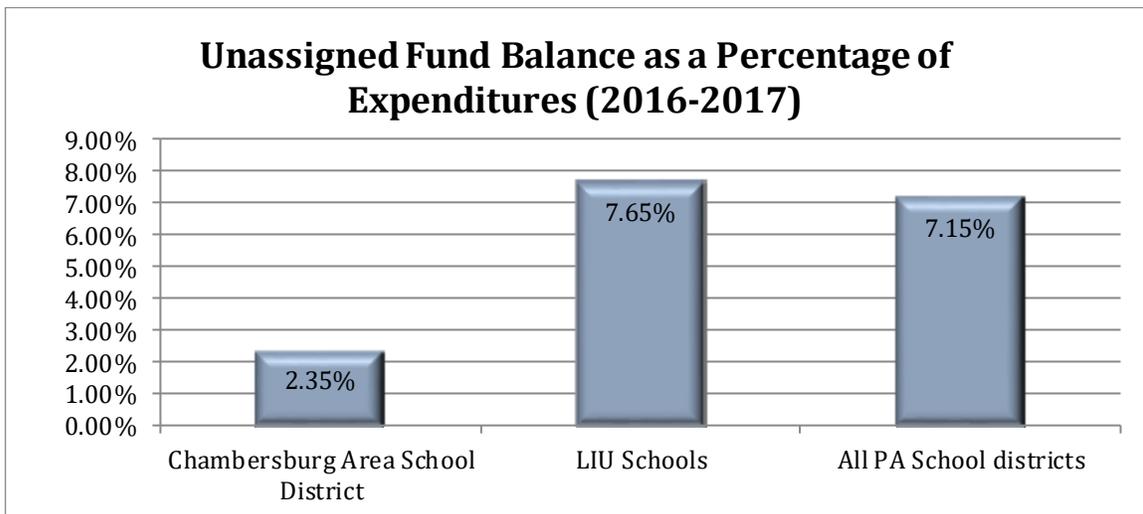
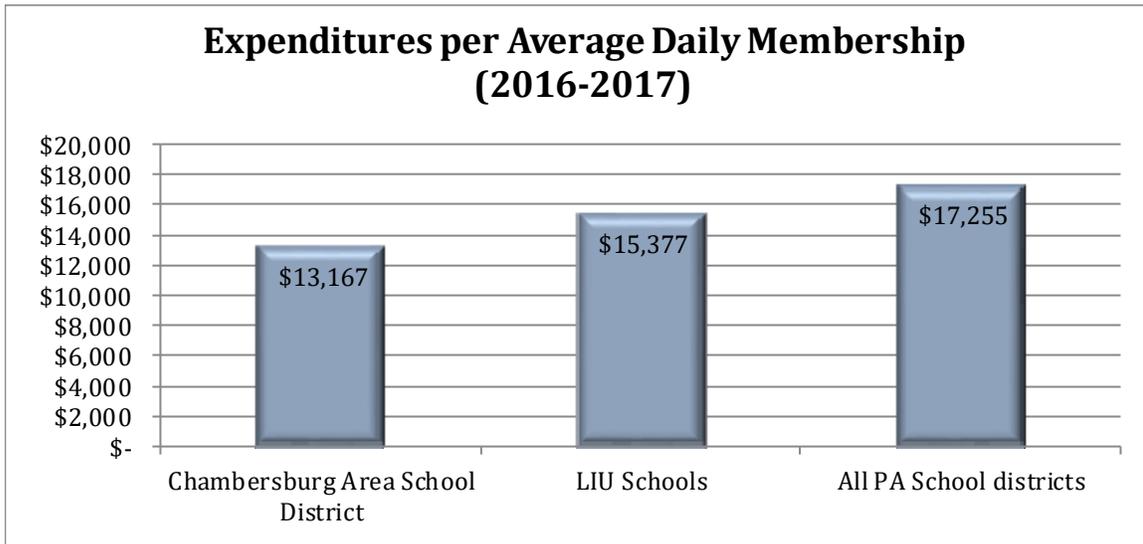
The following graphs have been included to assist in your financial analysis for the year ended June 30, 2018.



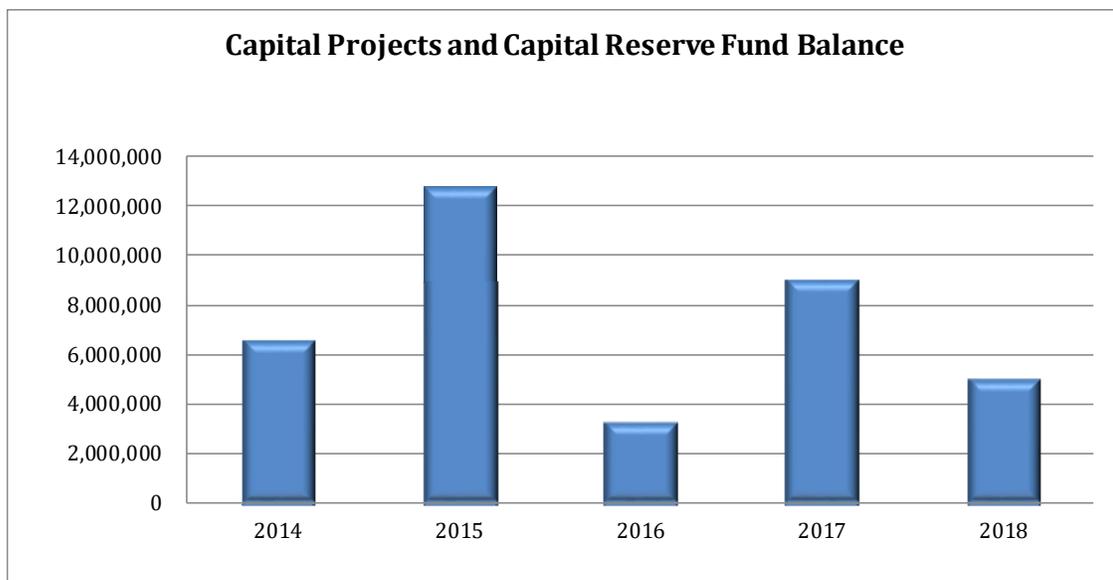
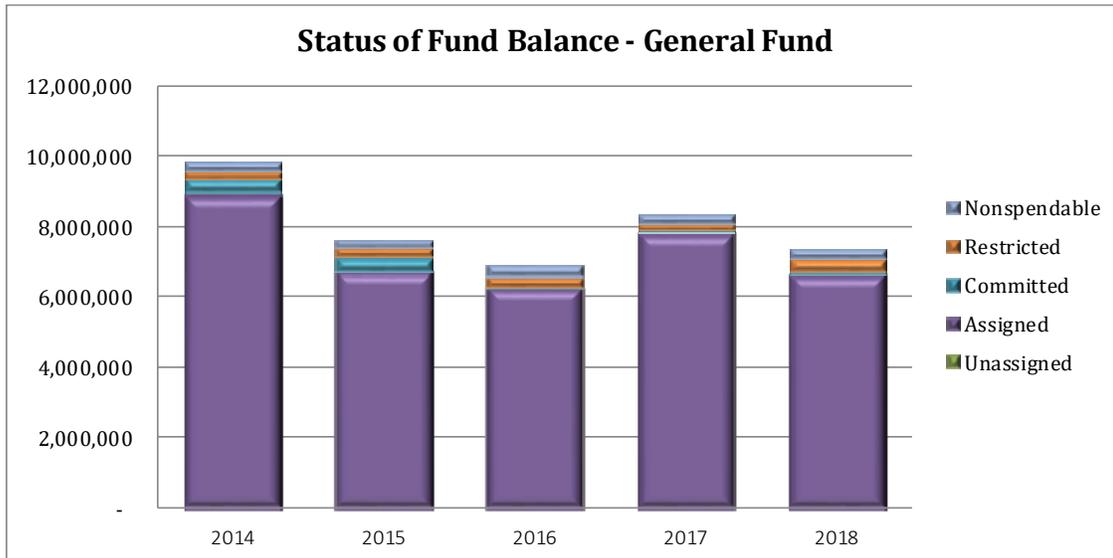








\* Unassigned fund balance plus budget deficit for following year.



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

We acknowledge and appreciate the courtesy and assistance extended to our representatives by the School District's personnel during our audit. We will be pleased to further discuss these comments and recommendations at your convenience.

*Smith & Elliott Keams Company, LLC*