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, 2019, and have issued our report thereon dated January 13, 2020.

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.

GASB 84 – FIDUCIARY ACTIVITIES

The Governmental Accounting Standards Board (“GASB”) has issued Statement 84, which provides guidance on the identification, accounting, and financial reporting of fiduciary activities. This standard has the potential of being more significant than originally anticipated and will require analysis of current fiduciary activities and potential fiduciary activities to ensure proper financial statement reporting moving forward.

The standard defines fiduciary activities, which had not been explicitly stated by generally accepted accounting principles (GAAP). Pension and OPEB arrangements will often meet the definition of fiduciary activities. For arrangements that benefit individuals that are not pensions, OPEB, or administered through a trust, an entity will generally need to evaluate control, administrative involvement, and direct financial involvement to determine if the activity meets the new definition of fiduciary activities.

Control is established if the government holds the assets or may direct the use, exchange, or employment of the assets. The government is considered to have administrative involvement if it monitors compliance of the activity with established requirements, determines eligibility of expenditures, or exercises discretion over the use or allocation of the assets. The government is considered to have direct financial involvement if it provides matching resources or is liable for disallowed costs.

In addition to establishing the parameters for recording an activity as fiduciary, the standard establishes several other key changes, as well:

- A statement of fiduciary net position and changes in fiduciary net position is required and defined.

- Agency funds will now be considered custodial funds and a statement of changes in fiduciary net position will be required disaggregating additions by sources and deductions by type. This may require changes to current accounting systems to track this activity and could result in additional audit focus as this will be included as part of the financial statement reporting.
A liability for fiduciary funds is recorded when a demand for resources has been made, or no further action, approval, or condition is required to be taken or met by a beneficiary to released assets. This guidance could result in custodial funds recognizing fiduciary net position.

This statement will require significant analysis and we recommend preparing for implementation as early as possible. Any changes to internal accounting should be in place prior to the beginning of the fiscal year of implementation. In addition to helpful flowcharts within the standard, GASB has also release an implementation guide with numerous questions and answers that help with the finer nuances of the statement.

This statement is effective for the June 30, 2020 fiscal year.

**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.

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 noncancelable 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.
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, 2019.

[Graphical Analysis: Governmental Activities - Assets, Liabilities, Net Position]

[Graphical Analysis: General Fund Revenue Breakdown]
General Fund Expenditure Breakdown
(excluding refinancing)

General Fund Expenditure Object Comparison
(excluding refinancing)
Expenditures per Average Daily Membership (2017 - 2018)

- Chambersburg Area School District: $14,054
- LIU Schools: $15,787
- All PA School Districts: $17,645

Unassigned Fund Balance as a Percentage of Expenditures (2017 - 2018)

- Chambersburg Area School District*: 3.68%
- LIU Schools: 7.33%
- All PA School Districts: 6.81%

* 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.

Chambersburg, Pennsylvania
January 13, 2020