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, 2020, and have issued our report thereon dated February 10, 2021.

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 95 – THE POSTPONEMENT OF THE EFFECTIVE DATES OF CERTAIN AUTHORITATIVE GUIDANCE**

In light of the COVID-19 pandemic, the GASB is providing temporary relief to governments by postponing the effective dates of certain provisions in Statements and Implementation Guides by either one year or 18 months. Earlier application of the provisions addressed in the State is encouraged and permitted to the extent specified in each pronouncement as originally issued. Pronouncements affected by this statement and applicable to the District are further described below.

**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.

Pursuant to GASB Statement No. 95, this statement is effective for the June 30, 2021 fiscal year. We recommend that management review any assets that are held by the School District in a fiduciary 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.

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.
Pursuant to GASB Statement No. 95, this statement is effective for the June 30, 2022 fiscal year. We recommend that management review all leases that the School District is currently entered into, 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 it is still important to begin reviewing all lease agreements prior to the issuance of GASB 87. We will be assisting management with the implementation of this standard.

**GASB – UPCOMING CHANGES TO REPORTING MODEL AND BASIS OF ACCOUNTING**

The Governmental Accounting Standards Board (GASB) is in the process of making significant changes to governmental financial statements and the underlying basis of accounting and has issued several documents for public comment. The GASB standard setting process includes issuing multiple documents in advance of issuing a final statement/standard that provide the public an opportunity to review standards in draft format, see the direction GASB is headed and provide feedback to the standard setting process, with comments due February 26, 2021. These current drafts relate to improving the financial reporting model and recognition of elements in the financial statements and will likely have a significant impact on the existing financial reporting model utilized by governmental entities.

The goal of this process 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. The following issues are being considered:

- Changes to requirements for management’s discussion and analysis
- Adding reporting for unusual or infrequent items
- Changes to reporting classifications in proprietary fund statement of revenues, expenses and changes in fund net position.
- Require budgetary comparison information to be shown as required supplementary information and add variance analysis as notes to RSI
- Changing the basis of accounting for governmental funds to a short-term financial resources measurement focus and the accrual basis of accounting focused on short-term transactions
- Provide concepts definition of elements of the financial statements to provide a basis for future standards
- Provide a framework/methodology for determining the proper categorization of revenue and expense transactions
- Defining appropriate information for inclusion in footnotes and evaluation of cost vs benefits to determine when information should be added to the footnotes

While each of the above items may not be applicable to all governmental entities, we wanted to make you aware of the potential changes and impact it may have to your financial statements in the future.

These draft standards will likely become effective over the next 4-5 years. We will continue to monitor the progress of those items through GASB and will communicate in the future once the statements themselves are issues.
The following graphs have been included to assist in your financial analysis for the year ended June 30, 2020.

**Governmental Activities**

*Assets, Liabilities, Net Position*

**General Fund Revenue Breakdown**

*Taxes, Other Local, State Sources, Federal Sources*
General Fund Expenditure Breakdown
(excluding refinancing)

General Fund Expenditure Object Comparison
(excluding refinancing)

- Salaries 39%
- Benefits 27%
- Purchased Professional and Technical Services 9%
- Purchased Property Services 1%
- Other Purchased Services 11%
- Supplies 3%
- Property 1%
- Debt Interest, Other 5%
- Debt Principal, Transfers 4%
- Property 1%

Expenditure Breakdown - LIU Schools (2018 - 2019)

- Salaries 39%
- Benefits 25%
- Purchased Professional and Technical Services, 7%
- Purchased Property Services, 2%
- Other Purchased Services, 12%
- Supplies, 3%
- Property, 1%
- Debt Interest, Other, 3%
- Debt Principal, Transfers, 8%

Expense Breakdown - Schools with Over $100 Million of Expense (2018 - 2019)

- Salaries, 36%
- Benefits, 23%
- Purchased Professional and Technical Services, 7%
- Purchased Property Services, 1%
- Other Purchased Services, 17%
- Supplies, 3%
- Property, 1%
- Debt Interest, Other, 4%
- Debt Principal, Transfers, 8%
Expenditures per Average Daily Membership (2018 - 2019)

- Chambersburg Area School District: $14,517
- LIU Schools: $16,771
- All PA School districts: $18,281

Unassigned Fund Balance as a Percentage of Expenditures (2018 - 2019)

- Chambersburg Area School District: 4.66%
- LIU Schools: 7.20%
- All PA School districts: 6.74%

* 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
February 10, 2021