Village of Ashwaubenon, Wisconsin

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER REQUIRED COMMUNICATIONS

December 31, 2018

Village of Ashwaubenon, Wisconsin

DECEMBER 31, 2018

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CliftonLarsonAllen LLP
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To the Honorable President and Members of the Village Board
Village of Ashwaubenon, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Ashwaubenon, Wisconsin (the "Village") as of and for the year ended December 31, 2018. The Village's financial statements, including our report thereon dated June 21, 2019, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITIES UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND *GOVERNMENT AUDITING STANDARDS*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

SIGNIFICANT AUDIT FINDINGS

Consideration of Internal Control

FINANCIAL STATEMENTS

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Village'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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 5 - 6 of this communication.

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.

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 Village's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in Note 1 to the financial statements. As described in Note X to the financial statements, the Village changed accounting policies related to postemployment benefits by adopting Statement of Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

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 included in the financial statements were:

- Management's estimate of the other postemployment benefits is based on an actuarial report. We evaluated the key factors and assumptions used to develop the other postemployment benefits in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the fair value of the investments is based on ending market values as of December 31, 2018 as reported by the investment managers. We evaluated the key factors and assumptions used in valuing the investments in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the incurred, but not reported (IBNR) insurance reserves are based on actuarial projections of the expected cost of the ultimate settlement and administration of claims. We evaluated the key factors and assumptions used to develop the reserves in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability (asset) and related deferred outflows/inflows of resources is based on information received from the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the net pension liability (asset) and related deferred outflows/inflows of resources in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of accumulated sick leave is based upon analysis of the employees sick leave balance. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the accumulated sick leave balance in determining that the liability calculation is reasonable in relation to the financial statements taken as a whole.

- Management estimated an allowance for uncollectible accounts for accounts receivables outstanding. These estimates are based upon management's knowledge of, and past experience with the outstanding balances. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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.

Corrected and 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 did not identify and we did not notify them of any uncorrected financial statement misstatements. The following material misstatements detected as a result of the audit procedures were corrected by management;

- Record additional accounts payable of $1,895,620
- Record changes in net pension asset/liability and related deferred outflows/inflows of $318,357
- Record net other postemployment benefits liability and related deferred outflows/inflows of $55,943 in the Water, Sewer, and Stormwater utilities

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 the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 21, 2019. The management representation letter follows this communication.

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 Village'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. We were informed by management that there were no consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and, to the best of our knowledge, our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and the schedules relating to pensions and other postemployment benefits, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information, 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 information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, which accompanies the financial statements but is not RSI. With respect to this supplementary information, 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, 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 issue dour report thereon dated June 21, 2019.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Restriction on Use

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

Sincerely,

CliftonLarsonAllen LLP

Green Bay, Wisconsin
June 21, 2019

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*

To the Honorable President and Members of the Village Board
Village of Ashwaubenon, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Ashwaubenon, Wisconsin, (the "Village") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated June 21, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the 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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Village's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Village's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control and on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Green Bay, Wisconsin
June 21, 2019

Summary Financial Information

GOVERNMENTAL FUND BALANCES

Presented below is a summary of the Village's governmental fund balances as of December 31, 2018 and 2017. This information is provided for assessing financial results for 2018 and for indicating financial resources available at the start of the 2019 budget year.

	2018	2017
Governmental funds		
General Fund		
Non-spendable		
Inventories and prepaid items	$ 158,042	$ 135,392
Restricted		
Public safety grants and forfeitures	34,598	30,115
Developer escrow funds	61,953	61,690
Committed		
Enhancing village buildings	-	250,000
Replenish employee retirement fund	-	240,000
Capital improvements	821,810	1,821,810
Unassigned	5,568,635	5,234,881
Total General Fund	6,645,038	7,773,888
Special Revenue Funds		
Restricted		
Tax Incremental District No. 2		
Park development	163,336	154,664
Donation	28,624	12,618
K-9 Program	43,709	18,250
Excess sales tax	-	24,831
Committed		
Street beautification	-	130
Capital projects	87,197	-
Oneida service agreement	-	31,838
DARE/Liaison	11,039	28,932
Citizen's Academy	4,345	5,141
Explorers Program	9,667	11,539
Economic development	39,807	-
Total Special Revenue Funds	387,724	287,943
Debt Service Fund		
Restricted for debt service	161,522	161,522
Capital Project Funds		
Restricted		
Tax Incremental District No. 4	526,606	-
Tax Incremental District No. 5	7,505,420	-
Committed		
Street construction	108,073	9,882
Village buildings	267,587	218,835
Parks and recreation projects	112,313	78,578
Public safety projects	158,877	-
Land sales and acquisition	-	55,569
Economic development	55,569	-
Unassigned		
Tax Incremental District No. 3	(4,556,563)	(4,838,234)
Tax Incremental District No. 4	-	(75,960)
Tax Incremental District No. 5	-	(347,332)
Community referendum projects	(20,000)	(55,946)
Total Capital Project Funds	4,157,882	(4,954,608)
Total Governmental Fund Balances	$ 11,352,166	$ 3,268,745

General Fund

Bond rating agencies suggest an unassigned fund balance between 20-30% of General Fund expenditures. The Village's General Fund unassigned fund balance of $5,568,635 is 34.95% of 2019 budgeted General Fund expenditures and remains in excellent cash flow position.

We believe the unassigned fund balance is necessary to allow the Village to maintain current operations, finance unplanned contingencies, and provide additional cash flow due to the lag in receiving tax revenues and state aids due to the Village. In addition, an unassigned fund balance can be used to stabilize the Village's tax rate.

Tax Incremental District No. 3 Capital Fund

In 2008, the Village established Tax Incremental District No. 3 (TID) as a capital projects fund and began the construction phase of the TID. At December 31, 2018 the net unreimbursed projects costs totaled $16,851,563 and consisted of the following:

Future maturities of principal on outstanding general obligation debt incurred for financing TID No. 3 projects	$ 12,295,000
Add: Fund deficit in TID No. 3 capital projects fund	4,556,563
Net Unreimbursed Project Costs	$ 16,851,563

Summary Comment: TID No. 3 in 2014 generated the first significant positive tax increment and, based on debt issued as of December 31, 2018, has annual principal and interest of approximately $2,327,851 due in 2019 with $2,563,469 of tax increment. As a result, the Village will still need to temporarily finance these debt payments from a cash flow perspective.

Tax Incremental District No. 4 Capital Fund

In 2009, the Village established Tax Incremental District No. 4 (TID) as a capital projects fund and began the construction phase of the TID. At December 31, 2018 the net unreimbursed projects costs totaled $2,723,394 and consisted of the following:

Future maturities of principal on outstanding general obligation debt incurred for financing TID No. 4 projects	$ 3,250,000
Less: Fund balance in TID No. 4 capital projects fund	526,606
Net Unreimbursed Project Costs	$ 2,723,394

Summary Comment: TID No. 4 has principal and interest of approximately $633,870 due in 2019 and $1,213,235 of tax increment to cover these payments.

Tax Incremental District No. 5 Capital Fund

In 2008, the Village established Tax Incremental District No. 5 (TID) as a capital projects fund and began the construction phase of the TID. At December 31, 2018 the net unreimbursed projects costs totaled $10,119,580 and consisted of the following:

Future maturities of principal on outstanding general obligation debt incurred for financing TID No. 5 projects	$ 18,780,000
Less: Fund balance in TID No. 5 capital projects fund	7,505,420
Net Unreimbursed Project Costs	$ 11,274,580

Summary Comment: TID No. 5 has principal and interest payments of $1,045,692 due in 2019 and has not generated tax increment yet. As a result, the Village will still need to temporarily finance these debt payments from a cash flow perspective.

WATER UTILITY

A comparative summary of the Water Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

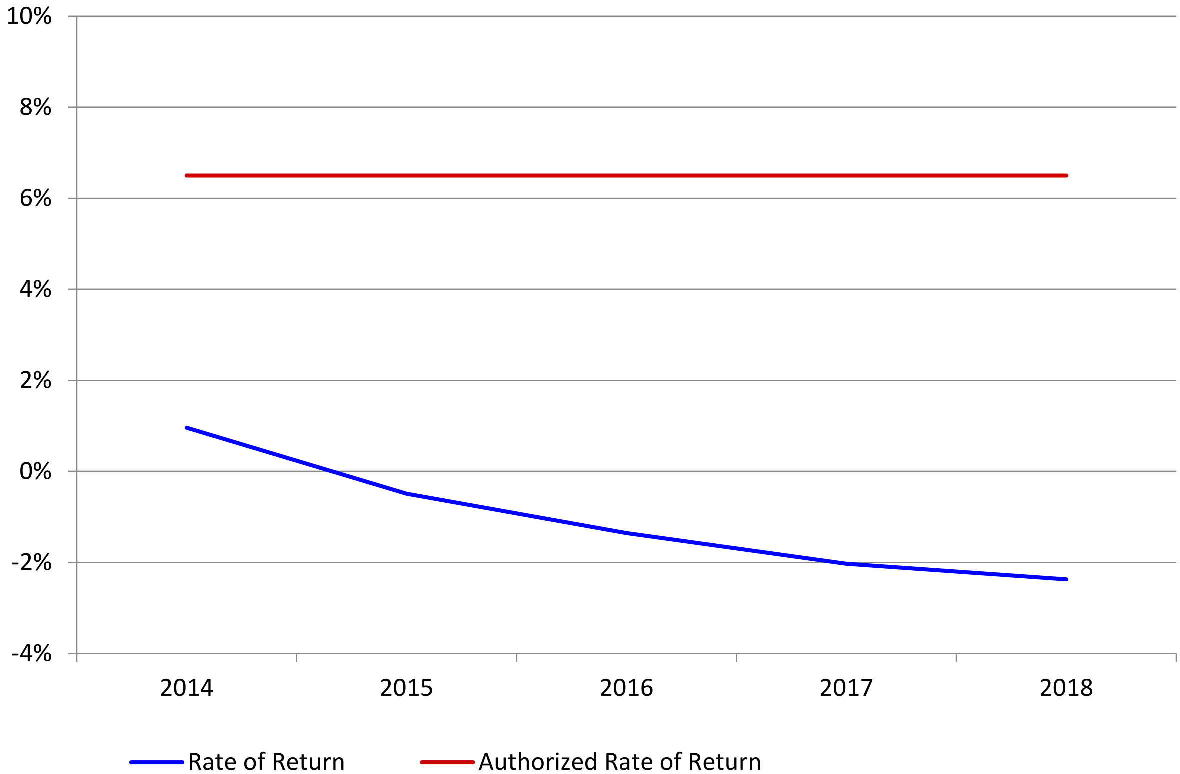
	2018	2017
Operating revenues		
Metered sales	$ 3,684,299	$ 3,723,327
Fire protection	492,192	491,905
Other	450,952	429,628
Total operating revenues	4,627,443	4,644,860
Operating expenses		
Operation and maintenance	3,867,456	3,841,557
Depreciation and amortization	858,992	857,914
Total operating expenses	4,726,448	4,699,471
Operating income (loss)	(99,005)	(54,611)
Nonoperating revenues (expenses)		
Interest income	101,134	14,703
Interest expense	(158,351)	(172,556)
Nonoperating revenues	5,008	-
Total nonoperating revenues (expenses)	(52,209)	(157,853)
Income (loss) before contributions and transfers	(151,214)	(212,464)
Capital contributions	3,006	50,524
Transfers out - property tax equivalent	(464,205)	(490,106)
Change in net position	$ (612,413)	$ (652,046)

Rate of Return

The Public Service Commission (PSC) of Wisconsin determines rates charged customers by calculating a rate of return on the water utility's rate base. Rate of return for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Rate base	$ 10,539,799	$ 10,606,203
Operating Income	$ (99,005)	$ (54,615)
Less: Property tax equivalent	(464,205)	(490,106)
Add: Depreciation on contributed plant and other adjustments	313,683	329,867
PSC Operating Income	$ (249,527)	$ (214,854)
Rate of Return	-2.37%	-2.03%

Water Utility Historical Rate of Return



Summary Comment: The water utility continues to be in strong financial position, with unrestricted cash and investments and an advance to the TID districts totaling $7,841,885; however, decreases in the rate of return since 2012 and future capital needs indicate a rate increase may be needed. The Village annually reviews the performance of the water utility as part of the budget and we are currently assisting with a projection for 2019.

SEWER UTILITY

A comparative summary of the Sewer Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	2018	2017
Operating revenues		
Charges for services	$ 5,239,676	$ 5,225,278
Other	22,082	16,857
Total operating revenues	5,261,758	5,242,135
Operating expenses		
Operation and maintenance	4,974,433	4,788,463
Depreciation	706,352	695,710
Total operating expenses	5,680,785	5,484,173
Operating loss	(419,027)	(242,038)
Nonoperating revenues (expenses)		
Interest income	66,188	28,777
Interest expense	(4,514)	(7,928)
Total nonoperating revenues (expenses)	61,674	20,849
Loss before contributions and transfers	(357,353)	(221,189)
Capital contributions	25,921	114,358
Transfers out - property tax equivalent	(14,579)	(13,741)
Change in net position	$ (346,011)	$ (120,572)

Comparative Cash Flows

Comparative cash flow statements for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Cash flows from operating activities		
Operating loss	$ (419,027)	$ (242,038)
Depreciation	622,716	614,412
Changes in assets and liabilities	127,582	(20,390)
Net cash provided by operating activities	331,271	351,984
Cash flows from noncapital financing activities		
Repayment of advance to other funds	34,607	72,748
Transfers out - property tax equivalent	(14,579)	(13,741)
Net cash provided by noncapital financing activities	20,028	59,007
Cash flows from capital and related financing activities		
Acquisition of capital assets	(600,680)	(67,310)
Capital contributions	-	116,606
Principal and interest paid on capital debt	(62,386)	(120,356)
Net cash used for capital and related financing activities	(663,066)	(71,060)
Cash flows from investing activities		
Interest received	66,188	28,777
Change in cash and cash equivalents	(245,579)	368,708
Cash and cash equivalents - January 1	4,343,448	3,974,740
Cash and cash equivalents - December 31	$ 4,097,869	$ 4,343,448

Summary Comment: At December 31, 2018, available cash and investments totaled $4,097,869. Because the sewer utility's costs are heavily dependent on treatment costs, which have significantly increased in recent years, the Village annually reviews its sewer rates in relation to operating costs.

HEALTH AND DENTAL SELF-FUNDED INTERNAL SERVICE FUNDS

The Village maintains two separate internal service funds to finance employee health and dental claims. A summary of 2018 transactions, including a comparison to the prior year, for each fund follows:

	Health		Dental	
	2018	2017	2018	2017
Operating revenues				
Premiums	$ 1,913,247	$ 2,031,058	$ 124,249	$ 113,554
Stop loss reimbursements	93,278	-	-	-
Insurance refunds	62,259	61,861	-	-
Total operating revenues	2,068,784	2,092,919	124,249	113,554
Operating expenses				
Insurance claims and premiums	1,508,691	1,622,901	111,228	137,351
Administration	379,166	402,028	5,220	-
Total operating expenses	1,887,857	2,024,929	116,448	137,351
Changes in net position	180,927	67,990	7,801	(23,797)
Net position - January 1	555,036	487,046	354,880	378,677
Net position - December 31	$ 735,963	$ 555,036	$ 362,681	$ 354,880

Health Self-Funded Insurance Fund

Insurance claims decreased 7.0% from 2017, which led net increase in net position of $180,927. The net position is approximately 49% of claims at year end.

Dental Self-Funded Insurance Fund

Insurance claims increased 15.2% and were 93.72% of premiums collected. The net position remains excellent at year end.

Because insurance claims can fluctuate annually, municipalities general try to maintain a net position balance between 20% and 50% of their annual operating expenses depending on the level of risk assumed by the plan.

COMMUNITY DEVELOPMENT AUTHORITY

The Community Development Authority is a component unit of the Village. A summary of 2018 transactions, including a comparison to the prior year, is presented below:

	2018	2017
Revenues		
Interest income	$ 206	$ 46
Lease revenue	2,882,906	2,908,330
Donations and other miscellaneous revenues	4,413	6,695
Total revenues	2,887,525	2,915,071
Expenditures		
Current		
General government	2,289	8,314
Debt service		
Principal	1,955,000	1,940,000
Interest and fiscal charges	927,906	968,330
Total expenditures	2,885,195	2,916,644
Net change in fund balance	2,330	(1,573)
Fund balance - January 1	102,778	104,351
Fund balance - December 31	$ 105,108	$ 102,778

Comments and Observations

ACCOUNTING AND REPORTING FOR LEASES

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which establishes a single model for lease accounting and revises reporting requirements.

Lease accounting is required when a government contracts to use another entity's equipment, building, or other nonfinancial assets for a specific period of time. Under the new guidance, a lease asset and a lease liability are recorded in the government-wide financial statements for this contract. The lease liability is calculated by including the following: fixed payments, variable payments, interest rate, purchase options, residual value guarantees, and termination or extension options. The lease liability is discounted and is amortized over the lease term. The lease asset is calculated by starting with the lease liability amount and adjusting for incentives and other costs and is amortized over the shorter of the lease term or the useful life of the underlying asset. The lease asset is reported in the financial statements as an intangible right to use asset, rather than a capital asset under current guidance. Footnote disclosures including lease assets by asset class and related accumulated amortization and future minimum payments among other details are required under the new Statement.

When the government is leasing one of its assets to another entity, a lease receivable and deferred inflow of resources related to the lease receivable is recorded. The lease receivable is calculated similar to the lease asset described above. The lease receivable is discounted and is amortized over the lease term. The deferred inflow of resources is calculated by starting with the lease receivable and adjusting for incentives and other payments. The deferred inflow would be recognized as an inflow of resources in a systematic and rational manner over the lease term.

Some contracts include a nonlease component such as maintenance services. The government will need to allocate the contract cost between the lease component and the nonlease component, unless it is not practicable to do so. If it is not practicable, the entire contract should be treated as a lease.

This new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is encouraged by GASB. We recommend the Village review the new standard, gather all lease contracts, and identify the terms and conditions of each contract, noting the lease term, all payments, and options in order to properly determine the value of each lease. The Village should also review contracts that have both lease and nonlease components to determine if a price allocation is practicable.

ACCOUNTING AND REPORTING FOR FIDUCIARY ACTIVITIES

In January 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities,* which establishes criteria for identifying fiduciary activities and revises reporting requirements. The standard is effective for fiscal years ending on or after December 31, 2019. In addition, the GASB expects to issue an implementation guide in 2019.

Identifying Fiduciary Activities

Activities other than pension and postemployment arrangements are considered fiduciary activities if all of the following criteria are met:

- The government controls the assets or can direct their use.
- The activity must not be solely based on the government's own-source revenue. Own-source revenue includes exchange transactions such as user charges, sales taxes and property taxes.
- The government does not have administrative involvement such as determining eligibility, monitoring compliance or approval of expenditures.
- The government does not have direct financial involvement such as matching requirements or liability for disallowed costs.

Activities meeting these criteria would be required to be reported as fiduciary funds. An exception is made for funds held in enterprise funds which are expected to be held for three months are less. These funds can continue to be reported in the enterprise fund. Activities not meeting these criteria would be reported as part of the governmental or proprietary funds.

The administrative involvement criteria is likely to have the most impact on reclassification of fiduciary activities. Policies on the expenditures of funds and approval of expenditures by an employee of the government may be considered administrative involvement and preclude the classification as a fiduciary activity.

Financial Reporting

An activity meeting the above criteria should be reported in one of the following four fiduciary funds:

- Pension and other employee benefit trust funds
- Investment trust funds
- Private-purpose trust funds
- Custodial funds

Fiduciary assets administered through a trust agreement are recorded in a pension and other employee benefit trust, investment or private-purpose trust fund. Custodial funds are used to report all other fiduciary activities not held in a trust or equivalent arrangement. Agency funds have been eliminated with GASB No. 84 and replaced with custodial funds.

Fiduciary funds will present a statement of fiduciary net position, including assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Liabilities to beneficiaries should be recognized when an event occurs that compels the government to disburse fiduciary resources, when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. A statement of changes in fiduciary net position should present additions by source and deductions by type.

Implementation

As mentioned previously, this new standard is effective for fiscal years ending on or after December 31, 2019. However, due to the potential reclassification of funds, the impact may need to be considered during budget preparation. We recommend the Village begin to determine the impact of the Statement by:

1. Identifying potential fiduciary activities. Some activities to consider include:
    a. Tax collection funds
    b. Cemetery trust funds
2. Gathering facts regarding each activity, including the government's administrative involvement.
3. Evaluating whether each activity meets the fiduciary activity criteria and determine how it should be reported. An appendix to the Statement includes flowcharts for the evaluation process.

These changes will affect your 2019 financial statements. This comment is for informational purposes.

APPENDIX