
Subject: GASB 84 and Other Pressing Questions

Dear Colleagues,

I hope you and your staff are doing well and holding up to the strain caused by the ongoing Covid-19 Virus. I need to briefly update you on matters related to our work and the Covid-19 Virus. **Please forward this message to your staff.**

A. I am receiving questions about how we are going to implement GASB 84 with regard to Internal School Activity Funds. GASB 84 is scheduled to be effective for June 30, 2020.

However, GASB is considering delaying implementation of GASB 84:

1. **We encourage CPA Firms, with the approval of their clients, to delay implementation of GASB 84 for one year. This is contingent on GASB delaying implementation, but we believe this will happen. If we do not implement GASB 84, then nothing will change for the year ended June 30, 2020. We will still have agency funds and no work will be performed on Internal School Activity Funds.**
2. Whether GASB 84 is implemented or not, we have decided that “Activity Funds” will continue to be audited on a **Regulatory** basis of accounting as we are currently doing. This means there will be no distinction between activities that could be considered fiduciary and those that would not be considered fiduciary.
3. The audit manual as currently written will still apply to audits of School Activity Funds.
4. We believe the majority of Activity Funds are **not** fiduciary in nature because the schools have “**administrative involvement**” with the Activity Funds. There could be a few exceptions which are likely not material.
5. This interpretation would mean that the total of Internal School Activity Funds +revenues and expenditures as well as fund balance, **if material**, would need to be included in the General Purpose School Fund, but only **after** GASB 84 is implemented. **The following will apply after GASB 84 is implemented.**
 - a. We believe the amount of assets, liabilities, revenues, expenditures, and fund balance may be material to the **Aggregate Discretely Presented Component Units Opinion Unit** in the **County Audits (i.e. the School Department is a discretely presented component unit of the County).**
 - b. We believe the amount of assets, liabilities, revenues, expenditures, and fund balance may be material **the City School Fund in City Audits.**
 - c. Further, if you decide that Activity Funds should be recorded, we believe they should be presented as **restricted assets and restricted fund balance/net position.**
 - d. CPA Firms should use their best judgment when determining materiality.
 - e. **Please Note: We will not audit the Internal School Activity Funds separately for Charter Schools for June 30, 2020. This will be delayed for another year along with the implementation of GASB 84.**

That explains our approach to GASB 84 implementation for School Activity Funds. Do **not** implement GASB 84 if possible, and **continue to perform the Internal School Activity Fund audits they are currently doing. No change.**

We believe you have enough on your plate this year without having to implement GASB 84.

B. I am also receiving questions about how we are going to audit School Cafeteria Funds because of School closings and lack of information.

1. CPA Firms will not be able to perform their routine audit procedures for Cafeteria Funds (do meal counts, count inventory, observe meals, etc.) for the year ended June 30, 2020.
2. CPA Firms should contract as usual, and then we will decide how to proceed with the Cafeteria audits.
3. I am attempting to find out from federal sources how to handle these audits. **I will let you know as soon as I have reliable information, possibly by next week.**
4. We will need to decide what type of opinion to give on the School Nutrition Programs at a later date.
5. Schools have received waivers for the emergency pick-up or drive-by programs that currently exist. I have attached the waiver received by the Tennessee Department of Education. It may very well be the case, that we obtain a copy of the waiver for the County or City school system and then audit the final reports referenced in the waiver.

C. I am also receiving questions about the disposition of Senior Class Funds since the classes have not been able to go on their planned trips.

The following guidance comes from the Tennessee Internal School Uniform Accounting Policy Manual, page 5-23. The schools should be familiar with the guidance.

1. "Unexpended Account Balances Accounts created for a class must be established on the basis of a graduation year so that account balances automatically follow the class until graduation. The graduating class should make provisions for the disposition of unexpended money prior to graduation; as such accounts must be closed at the end of the fiscal year. (For example, the class may choose to use any remaining money to open a savings account, independent of the school's bank accounts, to be used for subsequent class reunions.) Accordingly, if disposition of remaining balances has not been made prior to graduation, the balances will be transferred to the general fund. The graduating class will be considered to have forfeited its vested interest in such money after graduation."
2. The above guidance does not prohibit refunds to students who paid their own way on the trip. **Those students should be issued refund checks.**
3. However, given the emergency situation, the Comptroller's office is willing to make exceptions to the above rule under certain strict circumstances - for the funds raised by general fundraising events as follows:
 - a. The government must have declared a state of emergency.
 - b. An emergency policy must be adopted on a temporary basis to address the fact that the students are not getting to go on the trip because of the emergency.
 - c. The temporary emergency policy should specifically address how funds will be

disbursed to the Senior Class. However, funds raised by fundraisers cannot be paid out to the “individual” students based on the amount of funds the student raised. Fund raising proceeds must be comingled (pooled) for purposes of disbursement. Fundraising proceeds may be disbursed (under the emergency policy) to class members by any fair nondiscriminatory method. Payments should be made to all students in the class (i.e. other than the students who paid their way and received a refund). For example, \$50,000 was raised by all fundraisers. There are 100 students in the class who raised the funds by fund raising events. Each student would receive a \$500 refund based on a simple division calculation. **Any other fair method could be used but the emergency policy must address the method of payment.** Additionally, the disbursement to students would not have to include students who had categorically stated they were not going on the trip.

- d. The Director of Schools or School Board could approve the emergency policy once the government has declared an emergency.
- e. As you can see at the end, I tried to give the schools some latitude due to the emergency. Any fair, equitable, and nondiscriminatory method would be acceptable if approved by the Director of Schools or the School Board. Even though I have recited the technically correct method (i.e. fund raising is for the class not for each individual who raised funds), we should not be too rigid when interpreting their decision. It would be great if the Director of Schools or School Board involved the parents in making a final decision, but this is not required.
- f. Most of the schools have wanted to disburse funds to the people who raised the money. Again, although not technically correct, we should not be too rigid when interpreting their decisions.

D. Extension of Time to Submit Single Audits.

1. Due to the Covid-19 virus, OMB has decided that federal grant recipients can receive a 6-month extension of time to file Single Audit Reports.
2. Unless there are **extreme circumstances**, the Division does not intend to utilize or allow any extension of time to file the Single Audit Report. Extreme circumstances will be considered on a case by case basis.

E. Finally, I realize that your income tax preparation season has turned into a seven month (or nine, or longer) event. Please make every effort to manage your audit contracts in as normal fashion as possible. Please contact us if you are having difficulties obtaining information because of office or department closings. Your efforts will be very much appreciated by the Division and me personally.

Respectfully, Jerry

***Jerry E. Durham, CPA, CGFM, CFE
Assistant Director
Comptroller of the Treasury
Division of Local Government Audit
Cordell Hull Building***

425 Fifth Avenue North
Nashville, Tn, 37243-3400
Office Direct – 615.401.7951
Fax 615.741.6216