City of Marshall
Lyon County, Minnesota

Communications Letter

December 31, 2019

City of Marshall
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Report on Matters Identified as a Result of the Audit of the Financial Statements

Honorable Mayor and Members of the
City Council and Management
City of Marshall
Marshall, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Minnesota, as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

The material weakness identified is stated within this letter.

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.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated May 19, 2020, on such statements.

This communication is intended solely for the information and use of the City Council and management and others within the City and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties,

BerganKDV, Ltd.

St. Cloud, Minnesota
May 19, 2020

City of Marshall
Material Weakness

Prior Period Adjustments

Prior period adjustments were required to adjust beginning net position for governmental activities to reflect changes in deferred inflows of resources related to the Municipal State Aid Street program and to change the presentation of the Marshall-Lyon County Library component unit from discrete to blended. A prior period adjustment was also required for the Economic Development Authority, a discretely presented component unit, to adjust land held for resale to the lower of cost or market value.

City of Marshall
Required Communication

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2019. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit
As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Our Responsibility in Relation to *Government Auditing Standards*
As communicated in our engagement letter, part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's 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, the objective of our tests was not to provide an opinion on compliance with such provisions.

City of Marshall
Required Communication

Our Responsibility in Relation to Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the City's compliance with those requirements.

In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Qualitative Aspects of Significant Accounting Practices (Continued)

Significant Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on 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 markedly from management's current judgements. The most sensitive estimates affecting the financial statements were:

> Depreciation – The City is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.
>
> Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits, and supplies.
>
> Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the City for post employment benefits.
>
> Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.
>
> Allowance for Uncollectible Accounts – an allowance is used to reduce the balance of notes receivable that are estimated to be forgiven.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures
Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Uncorrected and Corrected Misstatements (Continued)
Management did not identify and we did not notify them of any uncorrected financial statement misstatements In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Prior period adjustments were required to adjust beginning net position for governmental activities to reflect changes in deferred inflows of resources related to the Municipal State Aid Street program and to change the presentation of the Marshall-Lyon County Library component unit from discrete to blended. A prior period adjustment was also required for the Economic Development Authority, a discretely presented component unit, to adjust land held for resale to the lower of cost or market value.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management
We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues
In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the City, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditor.

Other Information in Documents Containing Audited Financial Statements
We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing 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.

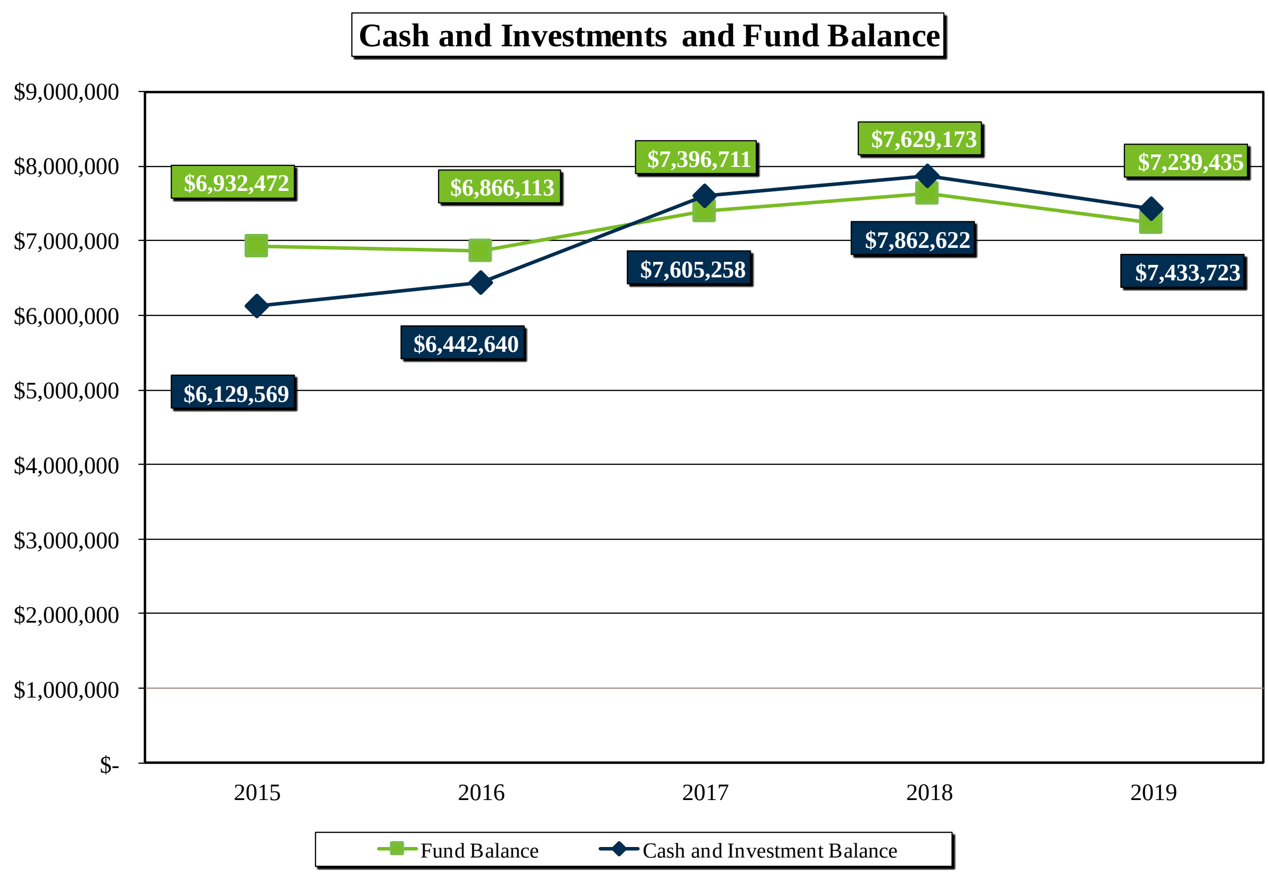
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United 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.

City of Marshall
Financial Analysis

The following pages provide graphic representations of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

GENERAL FUND – FUND BALANCE

The following graph illustrates the relationship between cash and investments and fund balance over the past five years. At December 31, 2019, the General Fund balance consisted of $119,804 nonspendable, $605,754 assigned, and $6,513,877 unassigned. The total unassigned fund balance represented over six months of expenditures at current levels. The Office of the State Auditor has issued a statement of position recommending cities maintain an unreserved fund balance of approximately 35% to 50% of fund operating revenues, or no less than five months of operating expenditures. The City's fund balance policy for the General Fund is to maintain a minimum unrestricted fund balance of an amount not less than 5 months of the next year's budgeted expenditures. The City's unrestricted fund balance in the General Fund at December 31, 2019 was 51% of 2020 budgeted expenditures of $12,881,437 which represented just over six months of expenditures.



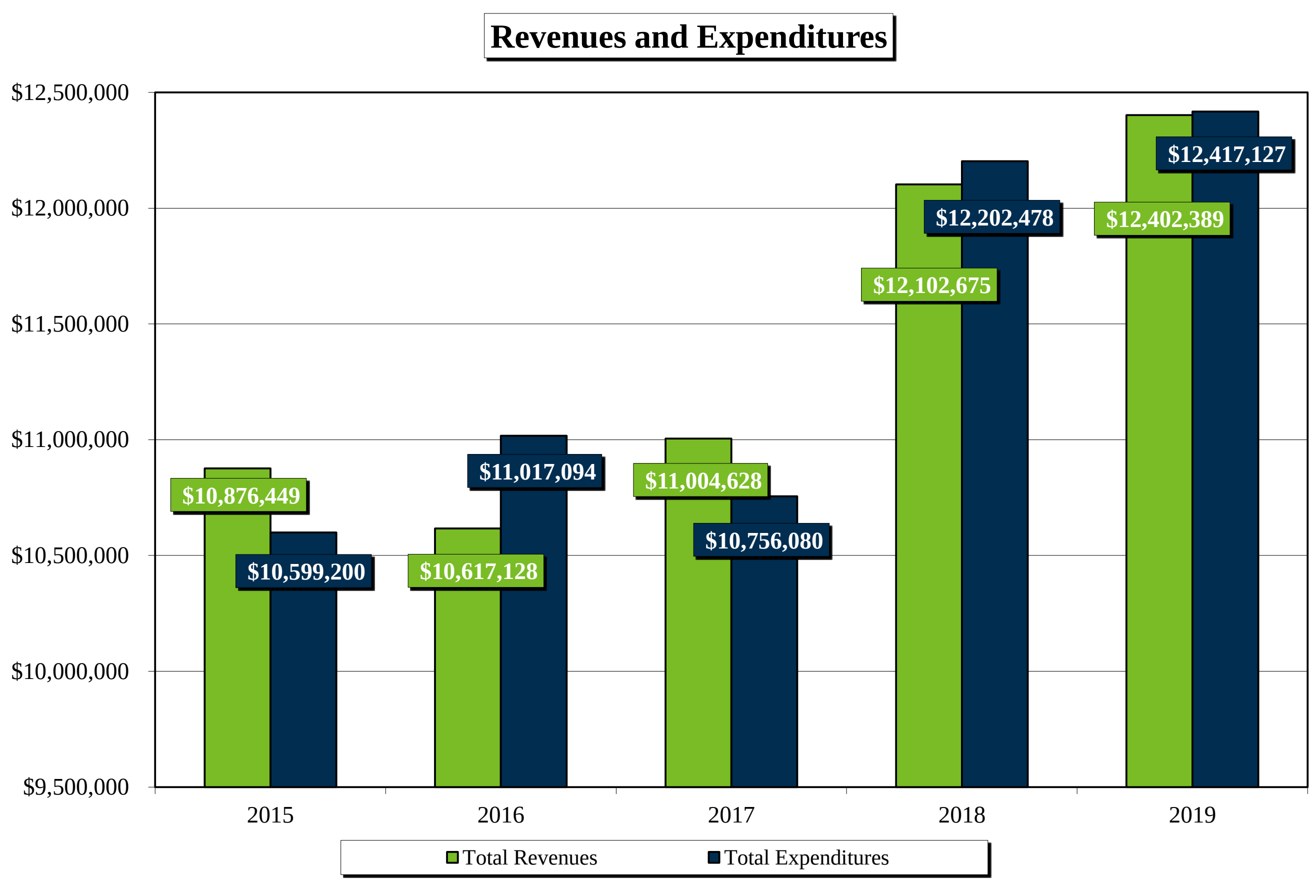
On the following pages, we will discuss the revenues and expenditures of the General Fund and the variaions in the fund balance.

City of Marshall
Financial Analysis

GENERAL FUND – REVENUES AND EXPENDITURES

The following table and graph show the overall operations of the General Fund. Revenues have fluctuated over the five years shown from a high in 2019 of $12,402,389 to a low of $10,617,128 in 2016. Overall from 2015 to 2019, revenues have increased $1,525,940. Similarly, expenditures have fluctuated over the five years presented. In 2019, expenditures were $12,417,127, an increase from the prior year of $214,649. Since 2015, expenditures have increased $1,817,927.

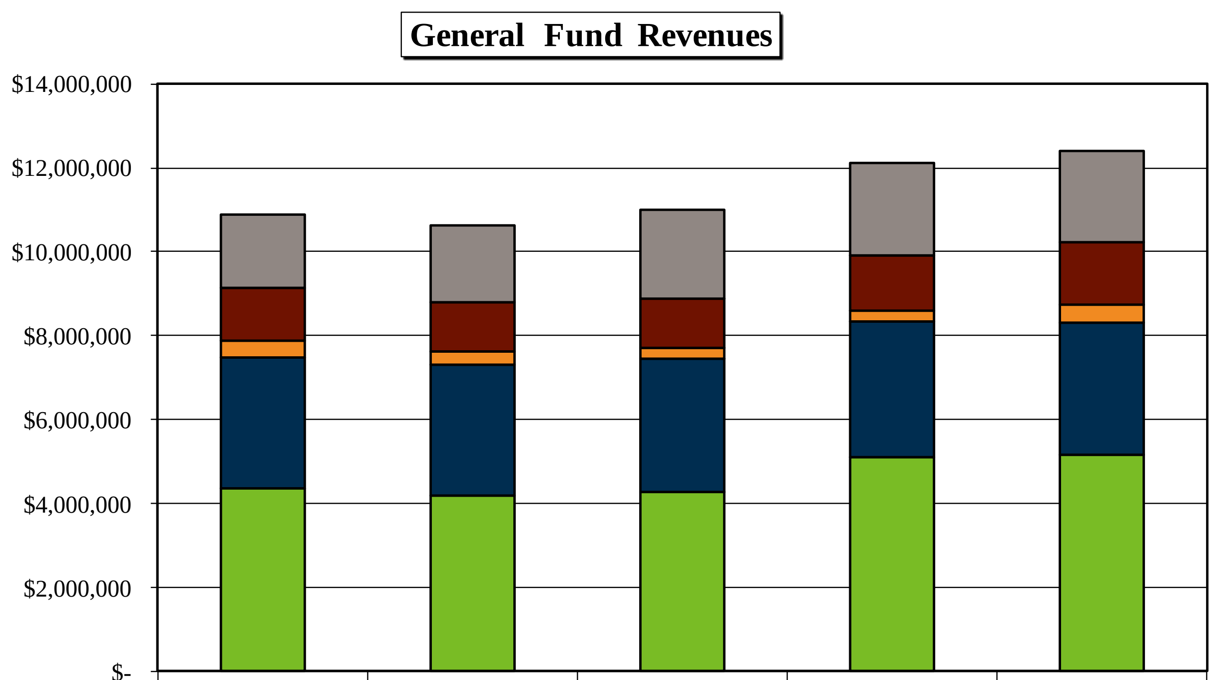
	2015	2016	2017	2018	2019
Revenues	$ 10,876,449	$ 10,617,128	$ 11,004,628	$ 12,102,675	$ 12,402,389
Expenditures	10,599,200	11,017,094	10,756,080	12,202,478	12,417,127
Proceeds from the sale of capital assets	34,574	31,585	29,945	5,160	-
Net transfers	(24,057)	302,022	252,105	327,105	(375,000)
Net change in fund balance	$ 287,766	$ (66,359)	$ 530,598	$ 232,462	$ (389,738)



GENERAL FUND – REVENUES

The following graph presents comparisons of revenues by type, illustrating the majority of revenue for the City is from taxes, intergovernmental sources, and charges for services. These three sources represent 41.7%, 25.4%, and 17.4% of total General Fund revenues, respectively. Other revenues include items such as licenses and permits, fines and forfeitures, special assessments, investment earnings, and other miscellaneous items.

Revenues of the General Fund increased from 2018 to 2019 by $299,714. The other revenue category increased $180,643 due in part to a $77,415 increase in investment earnings. There was also a change in classification of the contribution revenue received from Avera Marshall Regional Medical Center for public safety services which contributed to the variance. Licenses and permits had an increase in 2019 of $146,874 due to an increase in building activity.



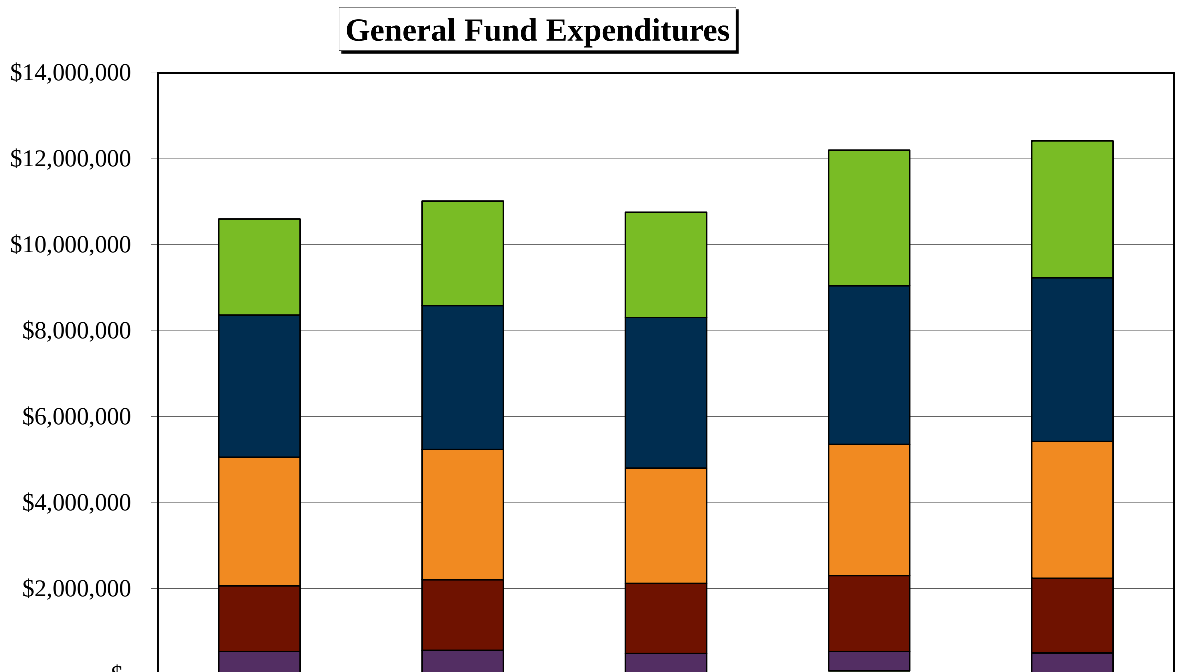
	2015	2016	2017	2018	2019
Charges for Services	$1,725,975	$1,827,557	$2,121,421	$2,180,174	$2,161,714
Other	1,282,947	1,153,225	1,186,877	1,331,357	1,512,000
Licenses and Permits	385,455	335,339	248,761	262,748	409,622
Intergovernmental	3,129,946	3,127,653	3,183,908	3,233,991	3,151,228
Taxes	4,352,126	4,173,354	4,263,661	5,094,405	5,167,825

City of Marshall
Financial Analysis

GENERAL FUND – EXPENDITURES

The graph below represents the breakdown of expenditures by department. Public safety continues to comprise the largest portion of General Fund expenditures, representing 30.7%. Overall, General Fund expenditures increased $214,649 from 2018.

Public works increased $129,140 compared to the prior year due in part to an increase in professional fees, particularly related to snow removal. Public safety increased $118,402 as a result of increased operating expenditures, such as higher repair and maintenance costs and increased insurance expenditures.



	2015	2016	2017	2018	2019
General Government	$2,233,598	$2,430,864	$2,447,986	$3,154,434	$3,180,045
Public Safety	3,309,091	3,348,578	3,501,282	3,691,773	3,810,175
Public Works	2,991,031	3,031,072	2,684,962	3,053,572	3,182,712
Culture and Recreation	1,525,794	1,642,196	1,628,759	1,765,202	1,742,781
Airport	539,686	558,772	493,091	451,632	489,969
Capital Outlay	-	5,612	-	85,865	11,445

City of Marshall
Financial Analysis

GENERAL FUND – BUDGETARY COMPARISON

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget - Over (Under)
Revenues				
Taxes	$5,080,788	$5,080,788	$5,167,825	$ 87,037
Licenses and permits	261,851	261,851	409,622	147,771
Special assessments	-	-	2,862	2,862
Intergovernmental	3,094,857	3,094,857	3,151,228	56,371
Charges for services	2,297,738	2,297,738	2,161,714	(136,024)
Fines and forfeitures	101,400	101,400	127,425	26,025
Investment earnings	30,000	30,000	162,709	132,709
Miscellaneous	959,594	959,594	1,219,004	259,410
Total revenue	11,826,228	11,826,228	12,402,389	576,161
Expenditures				
General government	3,227,163	3,227,163	3,180,045	(47,118)
Public safety	3,742,562	3,742,562	3,821,620	79,058
Public works	2,861,300	2,861,300	3,182,712	321,412
Culture and recreation	1,912,574	1,912,574	1,742,781	(169,793)
Airport	459,362	459,362	489,969	30,607
Total expenditures	12,202,961	12,202,961	12,417,127	214,166
Excess of revenue over (under) expenditures	(376,733)	(376,733)	(14,738)	361,995
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	30,000	30,000	-	(30,000)
Net transfers	225,000	225,000	(375,000)	(600,000)
Total other financing sources (uses)	255,000	255,000	(375,000)	(630,000)
Net change in fund balances	$ (121,733)	$ (121,733)	$ (389,738)	$ (268,005)

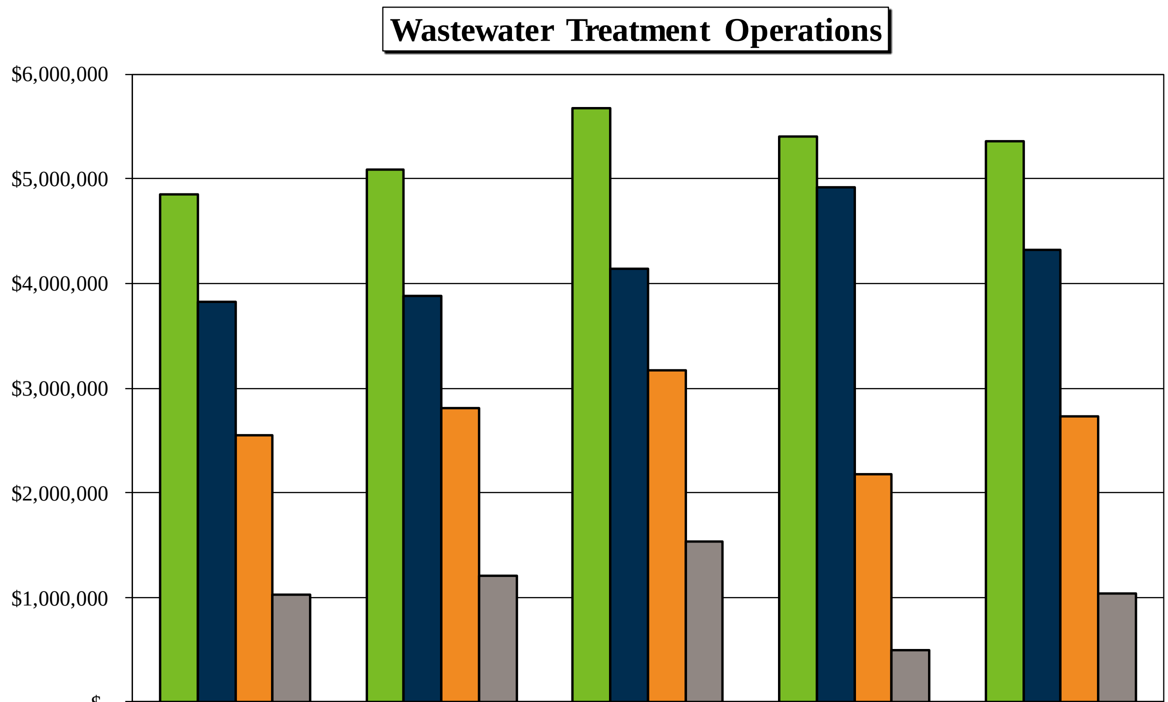
Overall, actual revenues were $576,161, or 4.9%, over budget. Miscellaneous revenues were $259,410 over budget due in part to refunds and reimbursements exceeding budgeted amounts along with changes in classification of public safety service to Avera Marshall Regional Medical Center. Also as a result of these classification changes, charges for services were $136,024 under budget in total. Investment earnings were $132,709 over budget due to a strong investment market performance in 2019. Licenses and permits were $147,771 over budget due to more building activity than anticipated. Tax revenue was $87,037 over budget primarily the result of franchise fees coming in well over budget. Other revenue categories were relatively consistent with the budget.

Overall, actual expenditures were more than budgeted amounts by $214,166, or 1.8%. Public works was over budget $321,412 due to more repairs and maintenance expenditures than anticipated along with professional services coming in over budget in large part due to increased snow removal. Culture and recreation was under budget $169,793 due in part to less part time employment needed than was budgeted along with conservative budgeting for professional services.

WASTEWATER TREATMENT ENTERPRISE FUND

The following graph illustrates the current operations of the Wastewater Treatment Fund for the past five years. Operating income is shown with and without depreciation below.

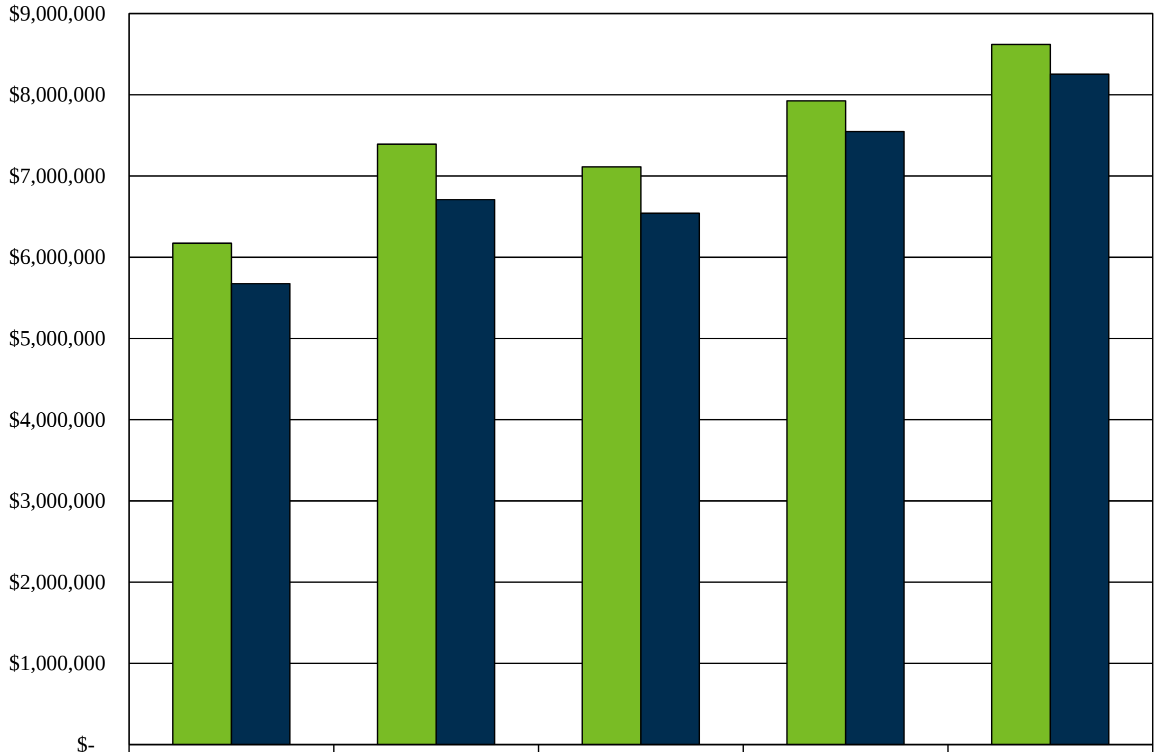
Operating revenue decreased $51,227, or 0.9%, from 2018 while operating expenses decreased by $592,592, or 12.1%. The decrease is primarily due to decreased professional services expenses related to the timing of significant planning activity for the wastewater treatment upgrades. The net effect of the decreased revenues and decreased expenses is operating income of $1,035,735 which is an increase of $541,365 compared to 2018.



	2015	2016	2017	2018	2019
Operating Revenues	$4,855,739	$5,086,831	$5,672,749	$5,410,581	$5,359,354
Operating Expenses	3,828,507	3,878,263	4,137,225	4,916,211	4,323,619
Operating Income without Depreciation	2,550,823	2,805,824	3,176,129	2,178,806	2,733,510
Operating Income	1,027,232	1,208,568	1,535,524	494,370	1,035,735

WASTEWATER TREATMENT ENTERPRISE FUND (CONTINUED)

Wastewater Treatment Fund



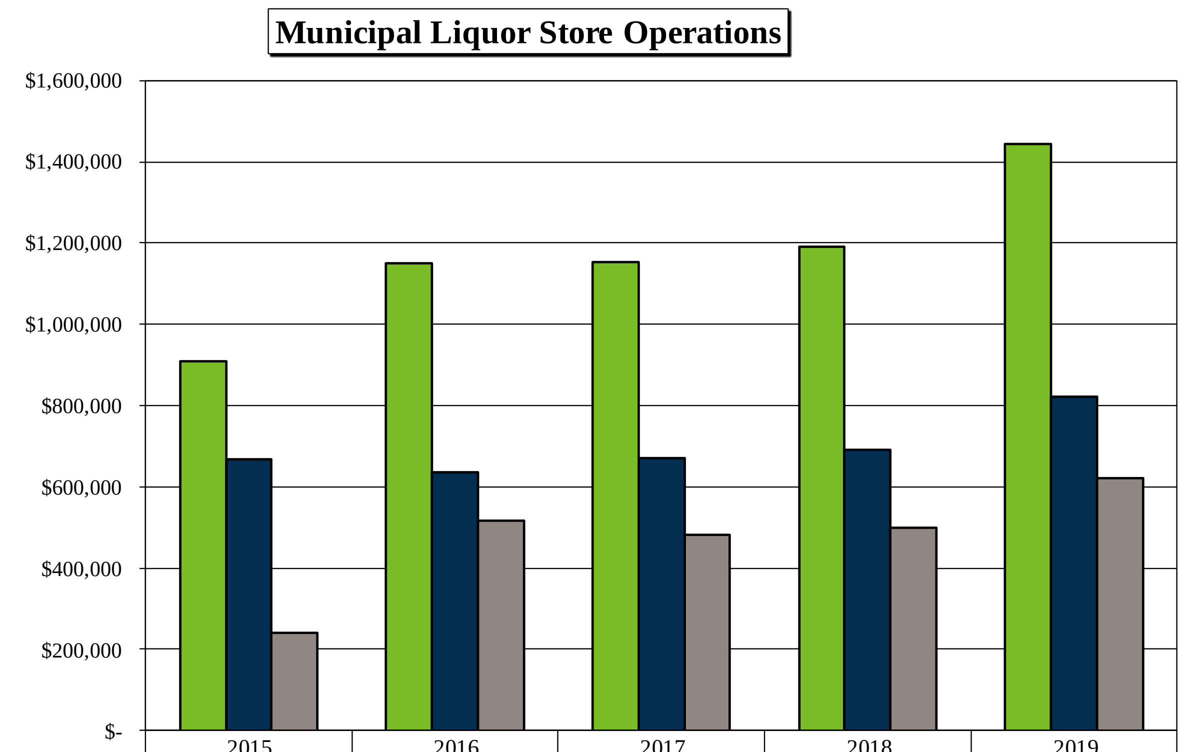
	2015	2016	2017	2018	2019
Cash and Investments	$6,172,591	$7,392,406	$7,112,905	$7,925,351	$8,619,615
Restricted and Unrestricted Net Position	5,673,531	6,707,902	6,540,906	7,547,749	8,253,391

The above graph shows the cash and investment balances and restricted and unrestricted net position balances as of December 31 for the last five years. The cash and investment balance increased $694,264 during 2019 while the restricted and unrestricted net position for the Wastewater Treatment Fund increased $705,642 during the same time period. This was due to significant funds being received and spent for construction of the wastewater treatment upgrades during 2019. Unrestricted net position as of December 31, 2019 was $ 6,462,235.

MUNICIPAL LIQUOR STORE ENTERPRISE FUND

The following graph illustrates the current operations of the Municipal Liquor Store Fund for the past five years.

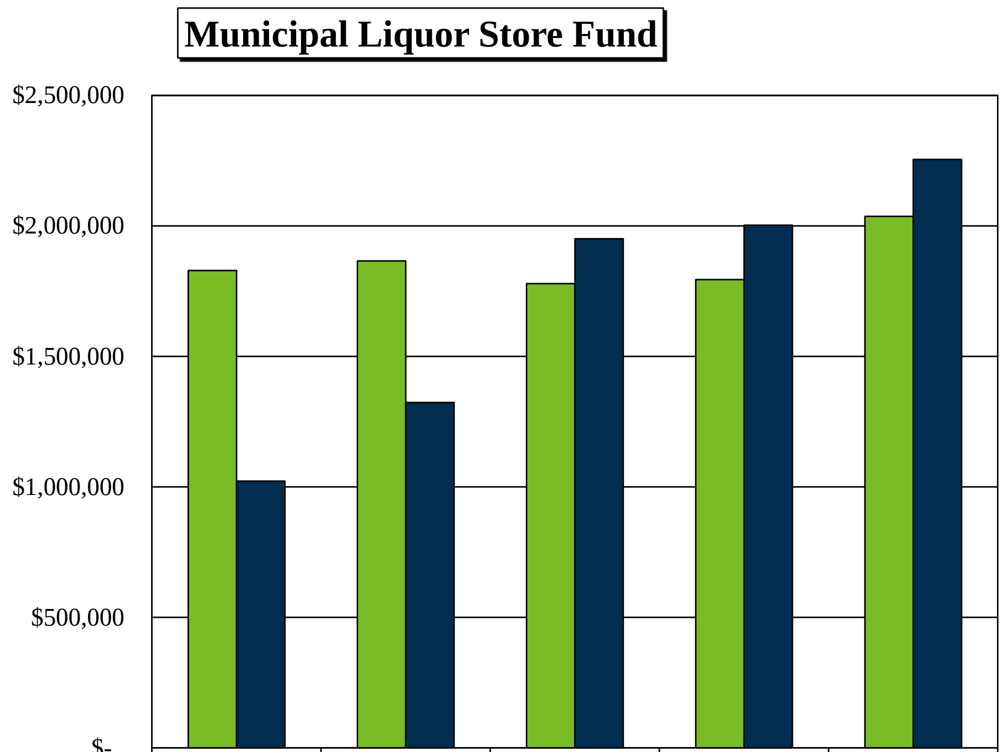
The Municipal Liquor Store Fund has shown an operating income in each of the five years presented. In 2019, the Fund showed an operating income of $622,500. This is an increase in operating income of $122,595 from 2018. The Fund experienced an increase in gross profit of $252,532 while liquor store expenses increased $129,937. Revenues increased with management monitoring gross profit more closely and adjusting sales price based on current gross profit. There was also implementation of taste testing, and festivals for promotional purposes. Expenses increased as a result of operations and changes in staffing, particularly a new full-time position. The Fund was able to transfer $255,000 to the General Fund.



	2015	2016	2017	2018	2019
Gross Profit	$908,225	$1,150,172	$1,152,404	$1,191,248	$1,443,780
Operating Expenses	667,074	634,905	671,924	691,343	821,280
Operating Income	241,151	515,267	480,480	499,905	622,500

MUNICIPAL LIQUOR STORE ENTERPRISE FUND (CONTINUED)

The graph below shows the cash and investment balances and restricted and unrestricted net position balances as of December 31 for the last five years. The Municipal Liquor Store Fund cash and investment balance increased $242,134 while the restricted and unrestricted net position increased $251,811 in 2019. Unrestricted net position as of December 31, 2019 was $ 549,667.



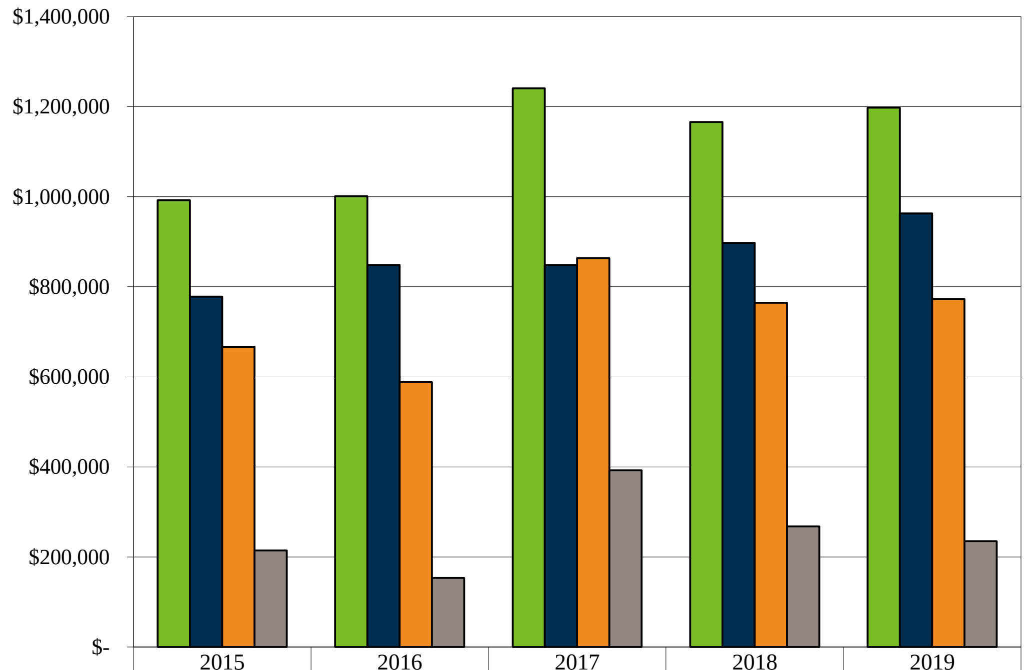
	2015	2016	2017	2018	2019
Cash and Investments	$1,829,311	$1,865,418	$1,778,769	$1,794,175	$2,036,309
Restricted and Unrestricted Net Position	1,022,498	1,323,523	1,950,601	2,003,097	2,254,908

City of Marshall
Financial Analysis

SURFACE WATER MANAGEMENT ENTERPRISE FUND

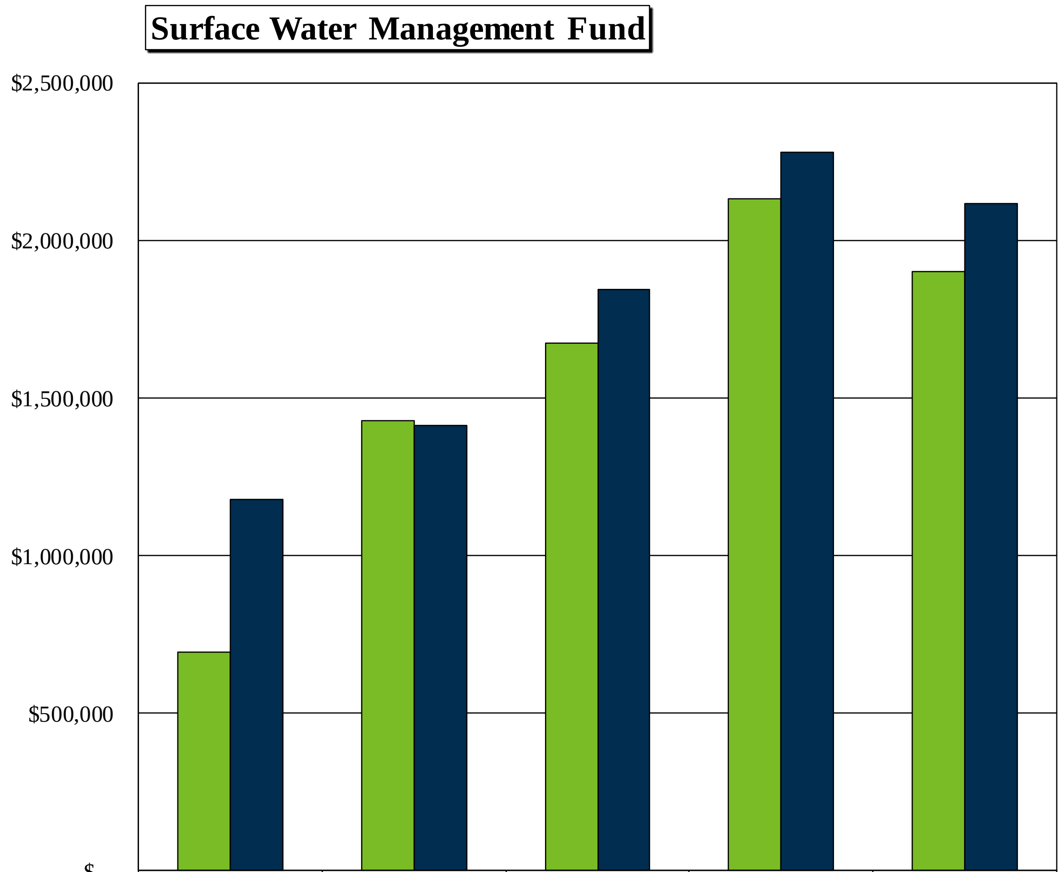
The following graph illustrates the current operations of the Surface Water Management Fund for the past five years. For all five years shown, the City's Surface Water Management Fund has generated an operating income. Operating revenue increased $32,000 or 2.7% while expenses increased $65,000 or 7.2% compared to 2018. Surface water management fee revenue increased with increased rates in 2019 while expenses increased primarily to an increase in depreciation expense of $41,300. The net effect of the changes in revenues and expenses is operating income of $235,154.

Surface Water Management Operations



	2015	2016	2017	2018	2019
Operating Revenues	$992,480	$1,001,246	$1,241,042	$1,165,997	$1,197,997
Operating Expenses	778,173	848,176	848,636	897,843	962,843
Operating Income without Depreciation	666,872	588,472	863,592	764,837	773,137
Operating Income	214,307	153,070	392,406	268,154	235,154

SURFACE WATER MANAGEMENT ENTERPRISE FUND (CONTINUED)



	2015	2016	2017	2018	2019
Cash and Investments	$694,833	$1,426,717	$1,674,910	$2,134,155	$1,903,710
Restricted and Unrestricted Net Position	1,178,209	1,412,722	1,846,029	2,280,679	2,119,204

As of December 31, 2019, the Surface Water Management Fund had a net cash and investment balance of $1,903,710. This is a decrease of $230,445 compared to 2018. However, the cash investment balance has increased $1,208,877 since 2015. Restricted and unrestricted net position at year-end 2019 was $2,119,204, a decrease of $161,475 compared to 2018. Unrestricted net position as of December 31, 2019 was $ 1,837,849.

City of Marshall
Emerging Issue

Executive Summary
The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your City.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – LEASES

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

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A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for fiscal years beginning after June 15, 2021.

Information provided above was obtained from www.gasb.org.