

Cobb County School District

Auditor's Discussion & Analysis
Financial & Compliance Audit Summary
June 30, 2015



Presented by:

**Adam Fraley, CPA
(800) 277-0080**

**MAULDIN
& JENKINS**

Cobb County School District

Auditor's Discussion & Analysis (AD&A)

June 30, 2015

PURPOSE OF ANNUAL AUDIT AGENDA

- ◆ Engagement Team and Firm Information.

- ◆ Overview of:
 - Audit Opinion;
 - Financial Statements, Footnotes and Supplementary Information;
 - Compliance Reports.

- ◆ Required Communications under Government Auditing Standards.

- ◆ Accounting Recommendations and Other Matters.

- ◆ Other Items and Closing Thoughts.

- ◆ Answer Questions.



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MAULDIN & JENKINS – GOVERNMENTAL PRACTICE

General Information:

- Founded in 1920.
- Large regional firm serving the Southeastern United States.
- Offices located in Macon, Atlanta, Albany, Bradenton, Chattanooga, and Birmingham.
- Approximately 260 personnel are employed at Mauldin & Jenkins.

Governmental Sector:

- Largest specific industry niche served by Firm representing 25% of Firm practice.
- Serve more governmental entities in Southeast than any other certified public accounting firm requiring over 70,000 hours of service on an annual basis.
- Approximately 90 professional staff persons with current governmental experience.
- In past three (3) years, have served approx. 300 governments in the Southeast, including:
 - ✓ 75 cities;
 - ✓ 40 counties;
 - ✓ 40 school systems (8 of the 10 largest in Georgia and 9 of the 30 largest in Georgia and Florida combined) and 20 charter schools;
 - ✓ 30 state entities;
 - ✓ 115 special purpose entities (stand-alone entities: water/sewer, transit, gas, electric, airports, housing, development, other educational, retirement, libraries, etc.);
 - ✓ 78 governments receiving the GFOA's Certificate of Achievement for Excellence in Financial Reporting.
- Auditor of a substantial part of the State of Georgia including approximately 30% of the State's General Fund, and a substantial number of the State of Georgia's component units.
- Experience performing forensic audit services and information technology consultations.
- Experience performing municipal bond debt issuance attestation services serving clients with over \$8.7 billion in aggregate publicly issued debt instruments.
- 10th highest level of Single Audits conducted in U.S.A. approximating \$8.0 billion annually.

Engagement Team Leaders for Cobb County School District Include:

- Adam Fraley - Engagement Lead Partner - 18 years experience, 100% governmental
- Joel Black - Engagement Quality Control Partner - 23 years experience, 100% governmental
- Christopher McKellar – Engagement Manager - 10 years experience, 100% governmental

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MAULDIN & JENKINS – ADDITIONAL INFORMATION

Other Industries & Services by Mauldin & Jenkins:

Each of Mauldin & Jenkins' offices provides a wide variety of services to a broad range of clientele. We have partners and managers who are responsible for specialized practice areas of auditing and accounting, taxes and management advisory services. Their purpose, as leaders in the particular practice area, is to establish policies with respect to technical matters in these specific areas and ensure that the quality of the Firm's practice is maintained.

Industries Served: Over the years our partners have developed expertise in certain industries representative of a cross section of the Georgia economy, including:

- Governmental Entities (state entities, cities, counties, school systems, business type operations, libraries, and other special purpose entities)
- SEC Registrants
- Wholesale Distribution
- Agri-Businesses
- Manufacturing
- Professional Services
- Employee Benefit Plans
- Financial Institutions (community banks, savings & loans, thrifts, credit unions, mortgage companies, and finance companies)
- Non-Profit Organizations
- Retail Businesses
- Long-term Healthcare
- Construction & Development
- Individuals, Estates and Trusts
- Real Estate Management

Services Provided: This diversity of practice enables our personnel to experience a wide variety of business, accounting and tax situations. We provide the traditional and not-so-traditional services such as:

- Financial Audit / Review / Compilation
- Compliance Audits & Single Audits
- Agreed-Upon Procedures
- Forensic Audits
- Bond Issuance Services
- Performance Audits
- State Sales Tax Matters
- International Tax Matters
- Business & Strategic Planning
- Profitability Consulting
- Budgeting
- Buy-Sell Agreements & Business Valuation Issues
- Income Tax Planning & Preparation
- Multi-State Income Tax Issues
- Information Systems Consulting
- Cost Accounting Analysis
- Healthcare Cost Reimbursement
- Outsourced Billing Services
- Fixed Asset Inventories
- Succession & Exit Strategy Consulting
- Estate Planning
- Management Information Systems
- Employee Benefit Plan Administration
- Merger / Acquisition & Expansion Financing

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INDEPENDENT AUDITOR'S REPORT

The independent auditor's report has specific significance to readers of the financial report.

Management's Responsibility for the Financial Statements

The financial statements are the responsibility of management.

Auditor's Responsibility

Our responsibility, as external auditors, is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. We planned and performed our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Opinion

We have issued an unmodified audit report (i.e., "clean opinion"). The respective financial statements are considered to present fairly the financial position and results of operations as of, and for the year ended June 30, 2015.

Emphasis of Matter

The financial statements reflect the implementation of certain new pronouncements, and our opinion is not modified with respect to them.

Other Matters

Certain required supplementary information and other information is included in the financial report, and as directed by relevant auditing standards, we have not expressed an opinion or provided any assurance on the respective information.

Other Reporting

Government Auditing Standards require auditors to issue a report on our consideration of internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. We have issued such a report and reference to this report is included in the independent auditor's report.

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REVIEW OF COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

General Information About the CAFR

A Comprehensive Annual Financial Report (CAFR) goes beyond the normal financial reporting required by accounting principles generally accepted in the United States. A CAFR includes at a minimum the following elements/sections:

- **Introductory Section:** general information on the School District's structure and the services it provides.
 - Letter of Transmittal
 - Organizational Chart
 - Directory of Officials
 - Certificate of Achievement for Excellence in Financial Reporting
- **Financial Section:** basic financial statements, footnotes and required supplementary information along with the auditor's report.
 - Independent Auditor's Report
 - Management Discussion & Analysis (MD&A)
 - Financial Statements and Footnotes
- **Statistical Section:** broad range of financial, demographic information useful in assessing the School District's economic condition, and this information covers multiple years.
 - Financial Trends Information
 - Revenue Capacity Information
 - Debt Capacity Information
 - Operating Information

A CAFR goes far beyond the basic requirements of annual financial reporting, and the School District should be commended for going beyond the minimum and providing such a report.

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Recognition and Award

Once completed, the fiscal year 2014 CAFR was submitted to the Government Finance Officers Association (GFOA) for determination if the report would merit the GFOA's Certificate of Achievement for Excellence in Financial Reporting. We are happy to inform everyone that the GFOA did indeed review the CAFR and awarded the School District with the sought after Certificate.

The GFOA and ASBO Certificates have been made a part of the School District's 2015 fiscal year CAFR, and is included in the Introductory Section.



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OVERVIEW OF FINANCIAL STATEMENTS

The School District's basic financial statements include three components:

- 1) Government-wide financial statements;
- 2) Fund financial statements; and
- 3) Notes to the financial statements.

The **government-wide financial statements** provide a broad overview of all of the School District's funds. The *Statement of Net Position* presents information on all assets (and deferred outflows) and liabilities (and deferred inflows) of the School District, with the resulting difference reported as net position. The *Statement of Activities* presents information showing how the School District's net position changed during the most recent fiscal year. Revenues are categorized as program revenues or general revenues. Expenses are categorized by function.

The **fund financial statements** more closely resemble the financial statements as presented prior to the adoption of GASB Statement No. 34. All of the funds of the School District can be divided into two (2) categories: governmental funds (includes the General Fund), business-type funds, and fiduciary funds.

The School District also includes, as part of the CAFR, the following information:

- 1) Special Purpose Local Option Sales Tax (SPLOST) Schedules, and
- 2) Single Audit schedules and reports.

Government-Wide (Full-Accrual) Financial Statements (in thousands)

As noted above, the financial report of the Government includes two (2) entity-wide financial statements: a *Statement of Net Position*; and a *Statement of Activities*.

Highlights of the government-wide statements notes total assets (and deferred outflows of resources) of approximately \$1,780,000 offset by liabilities (and deferred inflows of resources) of approximately \$1,049,000. This results in the Government reported net position (or equity) of approximately \$731,000. Important to note the pension related deferred outflows and inflows along with the net pension liability (required of GASB No. 68 for the first time this year) all of which nets to a net liability effect of \$854,000. Also, a substantial element of the net position is composed of an investment in capital assets in the approximate amount of \$1,329,000. Restricted net position amounts to approximately \$112,000 leaving unrestricted net position at a deficit of \$710,000.

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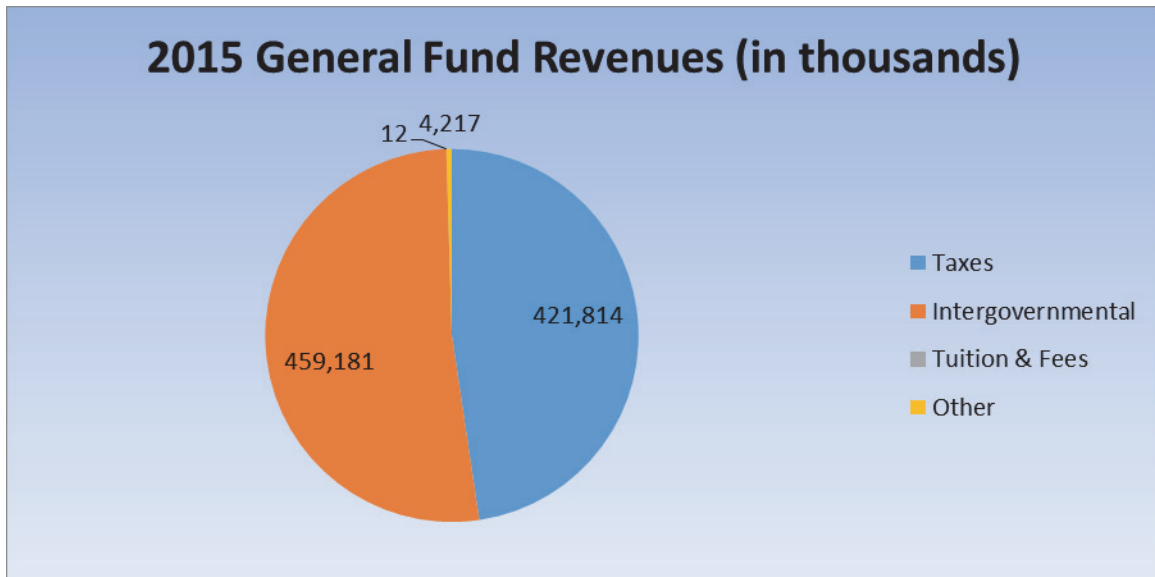
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The *Statement of Activities* attempts to report expenses in the first column with direct offsetting program revenues to the adjacent columns to arrive at a net cost of the functional areas of operation. General revenues (primarily property taxes and sales taxes) come to the rescue of the net cost functional areas resulting in the Government reporting a change in net position of approximately \$76,000 for the fiscal year ended June 30, 2015.

General Fund

Of primary interest to the District is the **General Fund**, which accounts for the majority of revenues received and funds expended in the operations of the District. The following charts present the sources of revenues, the expenditures of the General Fund for the fiscal year ended June 30, 2015:

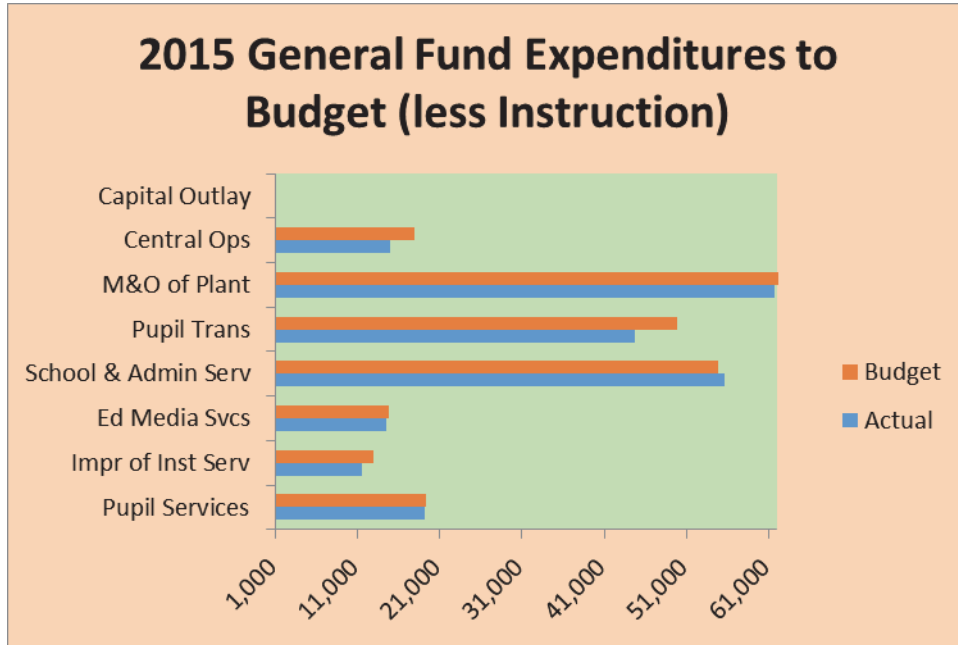


Total General Fund revenues for the fiscal year ended June 30, 2015 were \$885,224,000. Revenues of the prior year were \$844,505,000. The most significant variances were increases in intergovernmental revenues of \$27,274,000, tax revenues of \$15,844,000 and a decrease in other revenues of \$2,397,000.

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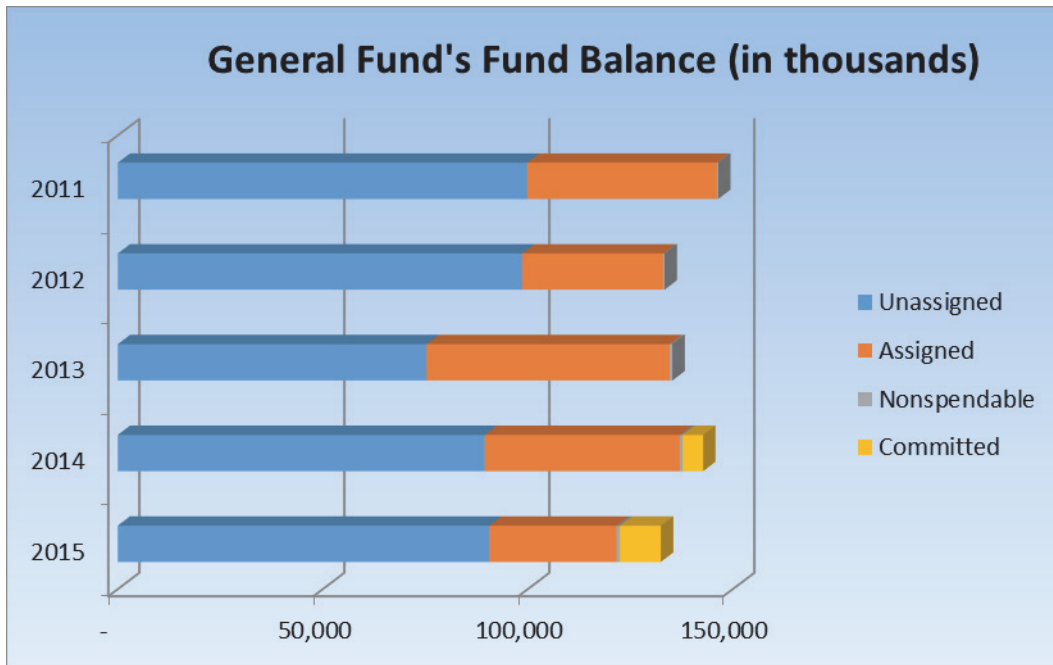
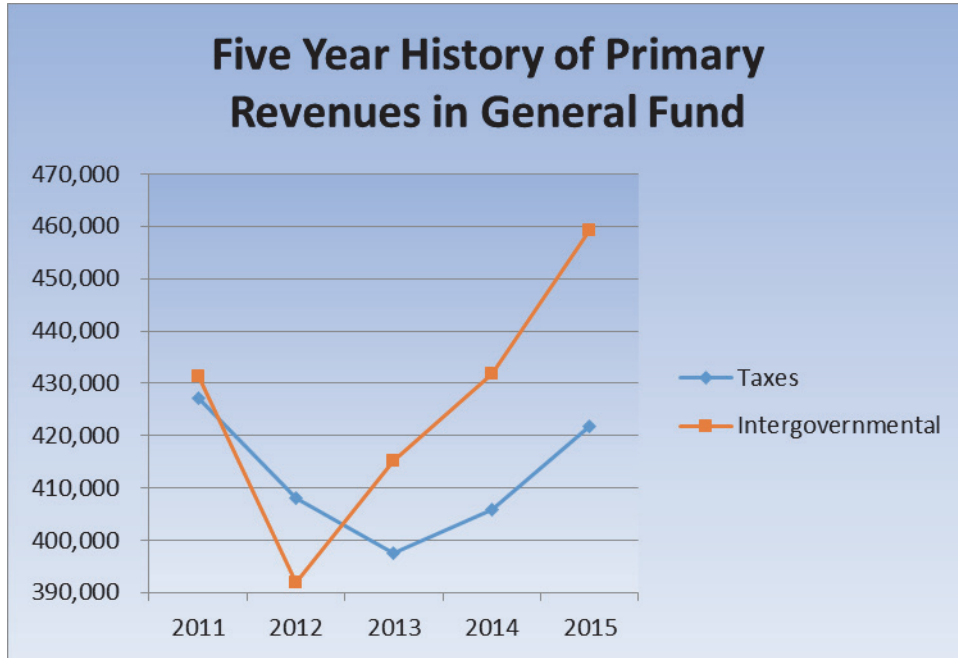
Total expenditures during the year ended June 30, 2015 were \$893,446,000, of which \$653,801,000 related to instructional costs. Expenditures of the prior year were \$835,694,000, of which \$601,643,000 related to instructional costs. The most significant variance was an increase in instructional expenditures of \$6,155,000.

More detailed explanations of variances can be found in the Management's Discussion and Analysis section of the financial statements. An analysis of General Fund revenues and fund balance for each of the last four fiscal years is as follows.

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Fund balance of the General Fund at June 30, 2015 was \$132,482,000, a decrease from the prior year's balance of \$142,782,000. It is important to note that fund balance does not necessarily equate to funds on hand available to spend. Fund balance is the difference between assets and liabilities, only some of which is cash and investments. Additionally, certain amounts of fund balance are nonspendable (0.6%), committed by the District for specific purposes (7.5%), or

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assigned by the District for specific purposes (23.4%). This leaves the remaining 68.4% of the District's fund balance at June 30, 2015 was available for spending.

Other Governmental Funds

The School District also maintains twenty (20) *special revenue funds*. These funds account for revenues derived from specific sources which are legally restricted to finance particular functions or activities. *Capital projects funds* are used to account for revenues and expenditures related to the renovation and/or construction of major capital assets. Four (4) capital projects funds are maintained by the School District.

Fiduciary Funds

The School District maintains two (2) *agency funds*, which accounts for the assets which are held for numerous school student activity organizations and payroll withholdings.

Footnotes

Note 1 – Accounting Policies: This footnote discusses the overall organization of the District and the nature of its operations. This note also discloses pertinent information regarding the governing body of the District.

This footnote continues by sharing with a reader of the financial statements the significant accounting policies and principles utilized in the preparation of the financial statements.

Note 2 – Legal Compliance – Budgets: This footnote discloses the District's procedures in establishing its annual budgets and discloses the District's excesses of actual expenditures over appropriations for the year.

Note 3 – Deposits and Investments: This disclosure addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Note 4 – Nonmonetary Transactions: This disclosure addresses the donated commodities received from other governments.

Note 5 – Capital Assets: This footnote discloses the District's capital asset activity and its related accumulated depreciation for the year.

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Note 6 & 7 – Interfund Receivables, Payables, and Transfers: This footnote discloses detailed information on the School District's interfund balances and transfers and the purpose of these balances and transactions.

Note 8 – Risk Management: This footnote discloses the contingencies from potential litigation, claims, and assessments filed against the District.

Note 9 & 12 – Long-term Obligations: This footnote discloses the District's long-term debt activity for the year, and other information for the compensated absences of the District.

Note 10 – On Behalf Payments: This footnote discloses the amount of health insurance and retirement contributions paid on behalf of the District by other governments.

Note 11 – Commitments and Contingencies: This footnote discloses information regarding the District's various contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

Note 13 – Pension Plans: This footnote discloses information regarding the District's pension plan, including funding policies and the amount of required contributions as compared to actual contributions.

Note 14 – Other Postemployment Benefits (OPEB): This footnote discloses information regarding the District's other postemployment benefits, including funding policies and the amount of required contributions as compared to actual contributions.

Note 15 – Change in Accounting Principle: This footnote discloses information regarding the District's implementation of new accounting pronouncements related to the reporting of the District's net pension liability.

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COMPLIANCE REPORTS

The financial report package contains two (2) compliance reports.

Yellow Book Report: The first compliance report is a report on our tests of the School District's internal controls and compliance with laws, regulations, etc. The tests of internal controls were those we determined to be required as a basis for designing our financial statement auditing procedures. Such tests also considered the School District'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. In accordance with the respective standards, the report is **not** intended to provide an opinion, but to provide a form of negative assurance as to the School District's internal controls and compliance with applicable rules and regulations.

Single Audit Report: The second compliance report is a report on our tests of the School District's internal controls and compliance with laws, regulations, etc. relative to certain Federal grant programs and the respective expenditures. Our tests were performed on the Government's major programs (as defined by the relevant Federal guidelines), and were not applied to each and every Federal grant expended by the Government. In accordance with the respective standards, we did provide an unmodified (or positive) opinion on the School District's compliance based on our audit. However, we were not required to provide an opinion on the relevant internal controls, but to provide a form of negative assurance on such controls.

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REQUIRED COMMUNICATIONS

The Auditor's Responsibility Under *Government Auditing Standards* and Auditing Standards Generally Accepted in the United States of America

Our audit of the financial statements of Cobb County School District (the "School District") for the year ended June 30, 2015 was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplishes that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the School District's internal control or compliance with laws and regulations.

Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the School District. There are several new accounting standards which will be required to be implemented in the coming years. These are discussed later in this document.

In considering the qualitative aspects of the School District's accounting policies, we did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. The School District's policies relative to the timing of recording of transactions are consistent with GAAP and typical government organizations.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future

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events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. We considered this information and the qualitative aspects of management's calculations in evaluating the School District's significant accounting policies. Estimates significant to the financial statements include such items as: the estimated lives of depreciable assets; actuarial assumptions and concepts relative to the benefit plans; deferred revenues; valuation of financial and non-financial instruments; the estimated incurred-but-not-reported liabilities; conservation commitments; extraordinary items; and the estimated allowance for uncollectible accounts.

Financial Statement Disclosures

The footnote disclosures to the financial statements are also an integral part of the financial statements. The process used by management to accumulate the information included in the disclosures was the same process used in accumulating the financial statements, and the accounting policies described above are included in those disclosures. The overall neutrality, consistency, and clarity of the disclosures was considered as part our audit and in forming our opinion on the financial statements.

Significant Difficulties Encountered in Performing the Audit

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

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Representation from Management

We requested written representations from management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations without a problem.

Management's Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

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Significant Issues Discussed with Management

There were no significant issues discussed with management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements. We are not aware of any consultations management had with us or other accountants about accounting or auditing matters. No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Audit Adjustments

During our audit of the School District's basic financial statements as of and for the year ended June 30, 2015, there were a few adjustments proposed to the funds of the School District. The detail of all proposed adjustments for each fund are included with our Audit Agenda package of information for your review and discussion. All adjustments have been discussed with management.

Uncorrected Misstatements

We had no passed adjustments.

Independence

We are independent of the School District, and all related organizations, in accordance with auditing standards promulgated by the American Institute of Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the School District.

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ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

Recommendations for Improvement and Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2015, we noted certain items management should consider as part of its decision making process. Further, we noted other matters which we wish to communicate to you in an effort to keep the School District abreast of accounting matters that could present challenges in financial reporting in future periods. Our recommendations and proactive thoughts and communications are presented in the following paragraphs.

Recommendations for Improvement (Management Points)

Comprehensive Financial Reporting System

- 1) The District technology function has not developed a comprehensive financial system for use by the accounting function resulting in a substantial number of manual processes used to produce information that is not part of the existing financial system. The existing system will not produce an automated trial balance each year for the audit. The Financial Services staff produce the trial balances as an Excel spreadsheet by fund. The District does not have an automated system for its accounts receivable function. This information is kept on Excel spreadsheets that continuously have to be updated by staff. Accounts receivables include supplemental pay billing, field trip billing, p-card billing, band loans, intergovernmental receivables (grant reimbursements), and miscellaneous outside vendor receivables. All payroll liability accounts have to be kept on an Excel spreadsheet in order to reconcile each account with the current accounting system. The District needs to move toward implementing a comprehensive financial accounting system that can produce reports generated from the system and produce an automated trial balance from the information in the system. The District currently has no automated accounts receivable system and needs to explore implementing one.

Management's Response: Management agrees Financial Services needs to implement a comprehensive financial accounting system that can produce both standard and customizable reports directly from the accounting database. Currently many reports must be manually maintained in Excel spreadsheets, which is highly inefficient. It is Management's understanding that the Cobb County School District will begin implementation of the MUNIS financial system in fiscal year 2017. The payroll module of the MUNIS system was implemented in fiscal year 2015. The District has already purchased MUNIS licenses for accounting/general ledger, accounts payable, and budget modules. There are other functional areas, such as accounts receivable and fixed assets,

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that we also plan to purchase and install as part of the MUNIS financial system implementation.

- 2) The Cobb County School District utilizes multiple automated systems to carry out the District's financial operation functions. While the main system utilized is the externally purchased CGI Accounting System, the district's technology function has developed other internally developed or partially internally developed systems that interface into the CGI system including payroll, budget, local schools accounting, after school program, food services accounting, fixed assets, and purchasing. All of these individual systems and internally developed systems increase the risk of data not being accurately compiled and reported. We recommend the District move toward all financial and selected operational applications being on one automated system. It is our understanding the District has purchased and implemented the MUNIS accounting system for its payroll accounting function. We recommend the District implement and utilize the other functions of the MUNIS system, such as financial reporting, budget, fixed assets, purchasing, food services accounting, local school accounting as well as human resources.

Management's Response: As stated in our previous response above, the District plans to implement many of the available MUNIS Financial System modules, which will allow an orderly transition from the current internally developed systems.

- 3) The District's accounting function utilizes reports internally developed by the District's Technology Division outside of the main external accounting system (CGI). During our audit fieldwork, we noted instances where automated functionality and system reports did not work properly.

During our audit fieldwork, we learned that the Fixed Asset Accounting System (FAST), which was internally developed by the District's technology function, produces reports that do not work properly or accurately reflect the data that is in the system. One fixed asset automated technology procedure that did not work was a process in which completed fixed assets are moved from the construction in progress category to the appropriate asset category. This technology glitch resulted in accounting reports where some assets were not reported accurately. Another fixed asset report did not reflect certain assets being added even though the assets were clearly already input into the FAST system. Specifically, there was a group of assets which were added into FAST and also deleted in the FAST within the same year by the Property Control staff. Later during the year, this group of assets was added back into FAST, but the report did not reflect that the assets had been added back. While the District's internal controls identified these errors and the necessary corrections were made by the District, system reports need to accurately reflect what is included in the asset system. Furthermore, the internally developed report displays so many lines of data,

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it makes it very difficult and time consuming to manually review all the data in the report to ensure the information is correct. Best practices suggest that reports generated from any system should accurately reflect the data in the financial system.

During our audit fieldwork, we observed a report developed outside the system by Technology, which staff used to prepare the expenditure section of the trial balances and Comprehensive Annual Financial Report (CAFR), that was incorrect. The Accounting staff discovered the dollar information on the report was incorrect pertaining to capital outlay. Accounting asked Technology for the data that supported the report and spent several days analyzing the data by fund to discover the report was incorrect. This is an example of report data that has not been accurately programmed to reflect the accounting information in the financial system.

It is our recommendation the District move toward a comprehensive accounting system for all of its financial applications and financial reports. Therefore, there would be no need for reports to be developed outside the system, which increases the risk of information on reports being incorrectly reported.

Management's Response: Management agrees there is a need for a comprehensive financial system, such as MUNIS, which includes an integrated fixed asset module with full reporting capabilities. Management also plans to review the District's assets in the current fixed asset system to ensure the data transferred into the MUNIS system during implementation is correct.

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Other Matters for Communication to the Board and Management

During our audit of the financial statements as of and for the year ended June 30, 2015, we noted other matters which we wish to communicate to you in an effort to keep the School District abreast of accounting matters that could present challenges in financial reporting in future periods.

1) New Governmental Accounting Standards Board (GASB) Pronouncements



As has been the case for the past 10 years, GASB has issued several other new pronouncements which will be effective in future years. The following is a brief summary of the new standards:

- a) **Statement No. 68, *Accounting and Reporting for Pensions*** and **Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an Amendment of GASB No. 68)*** are effective for the School District's fiscal year ended June 30, 2015, and it has been adopted as part of the financial reports prepared and issued by the School District as of and for the ended June 30, 2015. This pronouncement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria, including agent and cost-sharing multiple employer plans.

Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Relative to the School District, the unfunded actuarial liabilities (net of certain deferred outflows and inflows) of the School District's pension plan have been recorded in the net amounts of approximately \$854,000,000 which has effectively reduced net position (or equity) by the same respective amount.

The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

Defined Benefit Pension Plans. Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and

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the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

Statement No. 68 calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability and immediate recognition of the effect on the net pension liability of changes in benefit terms. Other components of pension expense will be recognized over a closed period that is determined by the average remaining service period of the plan members (both current and former employees, including retirees). These other components include the effects on the net pension liability of: (1) changes in economic and demographic assumptions used to project benefits; and, (2) differences between those assumptions and actual experience. Lastly, the effects on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed five-year period.

Statement No. 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. These changes include:

- **Projections of Benefit Payments.** Projections of benefit payments to employees will be based on the then-existing benefit terms and incorporate projected salary changes and projected service credits (if they are factors in the pension formula), as well as projected automatic postemployment benefit changes (those written into the benefit terms), including automatic cost-of-living-adjustments (COLAs). For the first time, projections also will include ad hoc postemployment benefit changes (those not written into the benefit terms), including ad hoc COLAs, if they are considered to be substantively automatic.
- **Discount Rate.** The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met.
- **Attribution Method.** Governments will use a single actuarial cost allocation method – “entry age,” with each period’s service cost determined as a level percentage of pay.

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Note Disclosures and Required Supplementary Information. Statement No. 68 also requires employers to present more extensive note disclosures and RSI, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Single and agent employers will disclose additional information, such as the composition of the employees covered by the benefit terms and the sources of changes in the components of the net pension liability for the current year. A single or agent employer will also present RSI schedules covering the past 10 years regarding:

- Sources of changes in the components of the net pension liability
- Ratios that assist in assessing the magnitude of the net pension liability
- Comparisons of actual employer contributions to the pension plan with actuarially determined contribution requirements, if an employer has actuarially determined contributions.

Cost-sharing employers are required to present the RSI schedule of net pension liability, information about contractually required contributions, and related ratios.

Defined Contribution Pensions. The existing standards for governments that provide defined contribution pensions are largely carried forward in this new statement. These governments will recognize pension expenses equal to the amount of contributions or credits to employees' accounts, absent forfeited amounts. A pension liability will be recognized for the difference between amounts recognized as expense and actual contributions made to a defined contribution pension plan.

Special Funding Situations. Certain governments are legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another government. For example, a state may be legally required to contribute to a pension plan that covers local school districts' teachers. In specific circumstances called special funding situations, the statement requires governments that are non-employer contributing entities to recognize in their own financial statements their proportionate share of the other governmental employers' net pension liability and pension expense.

The changes noted above by Statement No. 68 are significant to Governments who sponsor retirement plans, and we strongly encourage School District officials to continue to review the actual pronouncement and always consider the potential effects on the financial reporting of the Government.

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- b) **Statement No. 69, *Government Combinations and Disposals of Government Operations*** is effective for the School District's fiscal year ended June 30, 2015. This pronouncement primarily applies to governments involved in some form of mergers, acquisitions, transfers of operations or disposal of operations. Unless the School District enters into any agreements whereby such actions are anticipated, this pronouncement should not affect the School District. As of June 30, 2015, we are not aware of any applications of this pronouncement to the Government, but Government officials should proceed forward always considering the potential effects of any prospective government combinations and disposal of operations.
- c) **Statement No. 72, *Fair Value Measurement and Application*** was issued in February of 2015, and is effective for financial statements for periods beginning after June 15, 2015 resulting in the School District's fiscal year ending June 30, 2016.

This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes, and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional

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disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

- d) **Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68** was issued in June of 2015. The provisions of this standard are two (2) tiered. Amendments to GASB No 68 are required to be reported with the close of June 30, 2016. The elements of this pronouncement dealing with defined benefit pensions that are not within the scope of Statement No. 68 will be have disclosure requirements effective as of June 30, 2016 and financial reporting requirements effective as of June 30, 2017.

The requirements of this statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities.

This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities.

This statement also clarifies the application of certain provisions of Statements No.'s 67 and 68 with regard to the following issues:

- **Information** that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

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- **Accounting** and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions.
- **Timing** of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation.

e) **Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*** was issued in June of 2015, and is effective for financial statements for periods beginning after June 15, 2016 resulting in the School District's fiscal year ending June 30, 2017. This statement could easily be described as the GASB No. 67 for postemployment benefit plans due to the fact that it will closely follow the provisions of GASB No. 67 for pension plans.

The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this statement includes OPEB plans (defined benefit and defined contribution) administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

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- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year.

The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability.

The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

- f) **Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** was issued in June of 2015, and is effective for financial statements for periods beginning after June 15, 2017 resulting in the School District's fiscal year ending June 30, 2018. This statement could easily be described as the GASB No. 68 for postemployment benefit plans due to the fact that it will closely follow the provisions of GASB No. 68 for pension plans.

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and

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local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity.

In this statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

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- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

- g) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*** was issued in June of 2015, and is effective for financial statements for periods beginning after June 15, 2015 resulting in the School District's fiscal year ending June 30, 2016. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The objective of this statement is to identify (in the context of the current governmental financial reporting environment) the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two (2) categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The requirements in this statement improve financial reporting by: (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

- **Statement No. 77, *Tax Abatement Disclosures*** was issued in August of 2015, and is effective for financial statements for periods beginning after December 15, 2015 resulting in the School District's fiscal year ending June 30, 2017.

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Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this statement defines tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

This statement requires disclosure of tax abatement information about: (1) a reporting government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements.
- The specific taxes being abated.
- The gross dollar amount of taxes abated during the period.

h) Other Pending or Current GASB Projects. As noted by the numerous pronouncements issued by GASB over the past decade, the GASB continues to research various projects of interest to governmental units. Subjects of note include:

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- **External investment pools.** Current standards allow pools that are considered to be 2a7-like to report investments at amortized cost rather than fair value, however, the SEC recently made significant changes to Rule 2a7 making it hard to be 2a7-like. An exposure draft created criteria (which are based on old 2a7 criteria) for an external investment pools to continue to be accounted for using amortized cost. Final standard expected in the fall/winter of 2015.
- **Irrevocable split-interest agreements** which are prevalent at colleges and universities whereby split-interest agreements in which an asset is given to the government in trust. During stated term of the trust the income generated by the trust goes to the donor and when the trust ends then the assets become the governments. Final standard expected in 2016.
- **Capital leases or operating leases** continues to be a hot topic. Looking into whether all leases should be treated the same way. Final standard expected in 2016.
- **Asset retirement obligations** in which the GASB is considering standards for reporting liabilities related to obligations to perform procedures to close certain capital assets, such as nuclear power plants. This concept would not change existing standards such as GASB 18 (landfills) or GASB 49 (pollution remediation). Final standard expected in 2016.
- **Fiduciary responsibilities** and new definitions for fiduciary funds and use of whether a government has “control” and who benefits to determine accounting as fiduciary. Final standard expected in 2016.
- **Blending requirements for certain business-type activities.** GASB is considering revising the standards regarding how certain component units of business-type activities should be presented. There is diversity in practice, with some component units blended for reasons not included in Statement 14 (such as sole member of an LLC). Final standard expected in 2016.
- **Re-Examination of the Financial Reporting Model.** GASB has added this project to its technical agenda to make improvements to the existing financial reporting model (established via GASB 34). Improvements are meant to enhance the effectiveness of the model in providing information for decision-making and assessing a government’s accountability. GASB anticipates issuing an initial due process document on this project by the end of 2016.
- **Conceptual Framework** is a constant matter being looked at by GASB. Current measurement focus statements (for governmental funds) to change to near-term financial resources measurement. May dictate a period (such as 60 days) for revenue and expenditure recognition. May expense thing such as supplies and prepaid assets at acquisition. Will look into which balances (at all statement levels)

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are measured at acquisition and which need to be re-measured at year-end. Project placed on hold for now.

- **Economic Condition Reporting** is another long-term matter being looked into by GASB. Includes presentation of information on fiscal sustainability (including projections). Tabled for now pending resolution to issues raised on GASBs scope.

2) Single Audit Standards

There continues to be changes to auditing standards relative to the conduct and reporting of Single Audits. This year's financial and compliance audit recognized the implementation of the new Uniform Grant Guidance (a/k/a "Uniform Guidance" or "UG") which included significant changes to cost principles and other requirements for auditees receiving Federal funds.

These changes are driven based on the grant award date as awarded by the Federal agency. As such, auditors and auditees will follow requirements from both the "old" and "new" guidance for a few years to come.

Beginning with fiscal years ending December 31, 2015, additional changes to audit requirements will be effective. These include changes to the:

- Threshold requiring a Single Audit (from \$500,000 to \$750,000);
- Major program thresholds; and
- Percentage coverage thresholds (for low risk from 25% to 20% and for high risk from 50% to 40%).

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Summations of Thoughts Noted Above

We believe the implementation of these suggestions will enhance both the control environment and the financial reporting process, making both more effective. We also believe these recommendations can be easily implemented, and all problems resolved quite timely should management elect to employ the corrective measures.



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FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free continuing education (quarterly is the goal and objective) for all of our governmental clients. Each quarter we pick a couple of significant topics tailored to be of interest to governmental entities. In an effort to accommodate our entire governmental client base, we offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. We normally see approximately 100 people per quarter. We obtain the input and services of experienced outside speakers along with providing the instruction utilizing our in-house professionals. We hope School District staff and officials have been able to participate in this opportunity, and that it has been beneficial to you. Examples of subjects addressed in the past few quarters include:

- Accounting for Debt Issuances
- American Recovery & Reinvestment Act (ARRA) Updates
- Best Budgeting Practices, Policies and Processes
- CAFR Preparation (several times including a two (2) day hands-on course)
- Capital Asset Accounting Processes and Controls
- Collateralization of Deposits and Investments
- Evaluating Financial and Non-Financial Health of a Local Government
- GASB No. 51, Intangible Assets
- GASB No. 54, Governmental Fund Balance (subject addressed twice)
- GASB No. 60, Service Concession Arrangements (webcast)
- GASB No. 61, the Financial Reporting Entity (webcast)
- GASB No.'s 63 & 65, Deferred Inflows and Outflows (webcast)
- GASB No.'s 67 & 68, New Pension Stds. (presented several occasions)
- GASB Updates (ongoing and several sessions)
- Grant Accounting Processes and Controls
- Internal Controls Over Accounts Payable, Payroll and Cash Disbursements
- Internal Controls Over Receivables & the Revenue Cycle
- Internal Revenue Service (IRS) Issues, Primarily Payroll Matters
- Legal Considerations for Debt Issuances & Disclosure Requirements
- Policies and Procedures Manuals
- Segregation of Duties
- Single Audits for Auditees
- Special Purpose Local Option Sales Tax (SPLOST) Accounting, Reporting & Compliance
- Uniform Grant Reporting Requirements and the New Single Audit

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Governmental Newsletters. We periodically produce newsletters tailored to meet the needs of governments. The newsletters have addressed a variety of subjects and are intended to be timely in their subject matter. The newsletters are authored by Mauldin & Jenkins partners and managers, and are not purchased from an outside agency. The newsletters are intended to keep you informed of current developments in the government finance environment.

Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at pvercoe@micpa.com (send corresponding copy to afraley@micpa.com), and provide to her individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.

CLOSING

This information is intended solely for the use of the School District's management, and others within the School District's organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve Cobb County School District and look forward to serving the School District in the future. Thank you.



Client: **Cobb County Board of Education**
Engagement: **Cobb County Board of Education**
Period Ending: **June 30, 2015**
Workpaper: **School Nutrition Fund AJEs**

Description	Debit	Credit
School & Admin Services	443,370	
Capital Outlay		443,370
	<u>443,370</u>	<u>443,370</u>