COBB COUNTY SCHOOL DISTRICT

Annual Audit Agenda
June 30, 2013

Presented by:

of

MAULDIN & JENKINS

CERTIFIED PUBLIC ACCOUNTANTS, LLC

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 Related Matters
- Answer Questions

Cobb County School District

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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 with firm governmental leadership positioned in the Atlanta (and Macon) offices.
- Approximately 280 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 Georgia than any other certified public accounting firm requiring over 65,000 hours of service on an annual basis.
- Approximately 80 professional staff persons with current governmental experience.
- Current auditor for over 200 total governments in the Southeast, including approximately:
  - ✓ 60 cities;
  - ✓ 35 counties;
  - ✓ 35 school systems (**8 of the 10 largest in Georgia and 10 of the 30 largest in Georgia and Florida combined**);
  - ✓ 15 state entities; and,
  - ✓ 55 special purpose entities (stand-alone business type entities, libraries, etc).
- Serves 67 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 25% of the State's general fund; 13 of the State of Georgia's component units.

Engagement team leaders for the Cobb County Board of Education include:

- Adam Fraley, Engagement Partner – 17 years experience, 100% governmental
- James Bence, Engagement Manager – 11 years experience, 100% governmental
- Christopher McKellar, Engagement Manager – 8 years experience, 100% governmental

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

INDEPENDENT AUDITOR'S OPINION

The standard independent auditor's report for governmental units has specific sections of significance to readers of the financial report.

Management's Responsibility for the Financial Statements

The financial statements are the responsibility of the Cobb County Board of Education (the "District") management and the Board.

Auditor's Responsibility

Our responsibility, as external auditors, is to express opinions 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 financial statements of are considered to present fairly the financial position and results of operations as of, and for the year ended June 30, 2013.

Emphasis of Matter

The financial statements reflect the implementation of certain new pronouncements, and our opinions are 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.

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 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 District's economic condition, and this information covers multiple years.
  - Financial Trends Information
  - Revenue Capacity Information
  - Debt Capacity Information
  - Operating Information

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

REVIEW OF COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Recognition and Award

Once completed, the fiscal year 2012 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 District with the sought after Certificate.

The GFOA Certificate has been made a part of the District's 2013 fiscal year CAFR, and is included in the Introductory Section.

OVERVIEW OF FINANCIAL STATEMENTS

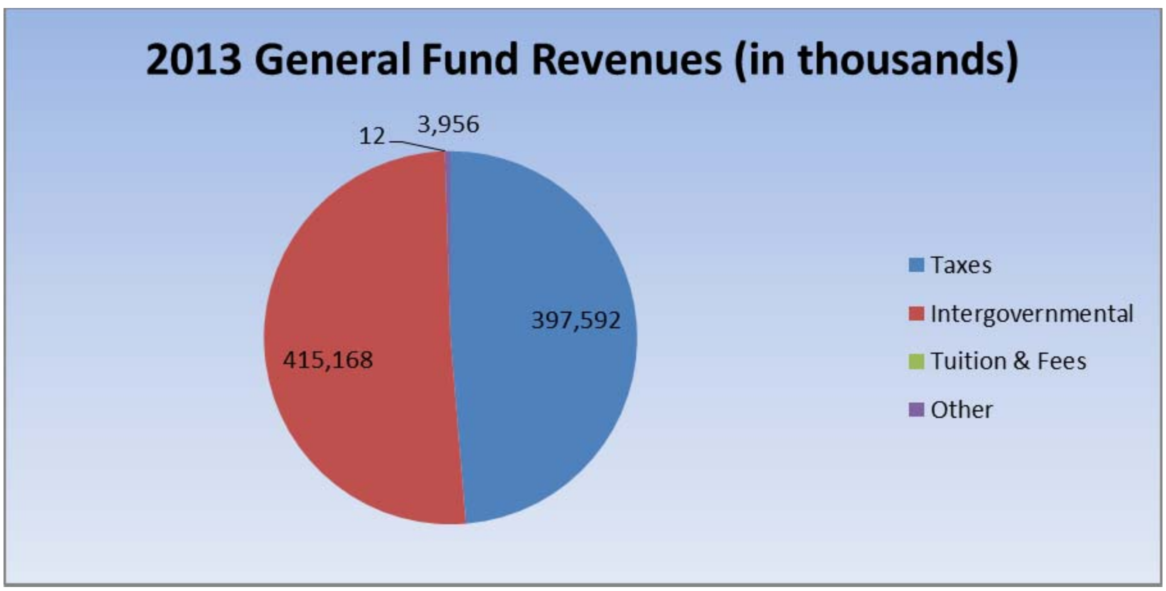
The District's basic financial statements include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

The **government-wide financial statements** provide a broad overview of all of the District's funds. The *Statement of Net Position* presents information on all assets and liabilities of the District, with the difference between the two reported as net position. The *Statement of Activities* presents information showing how the District's net assets 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 District can be divided into two categories: governmental funds, and fiduciary funds.

General Fund

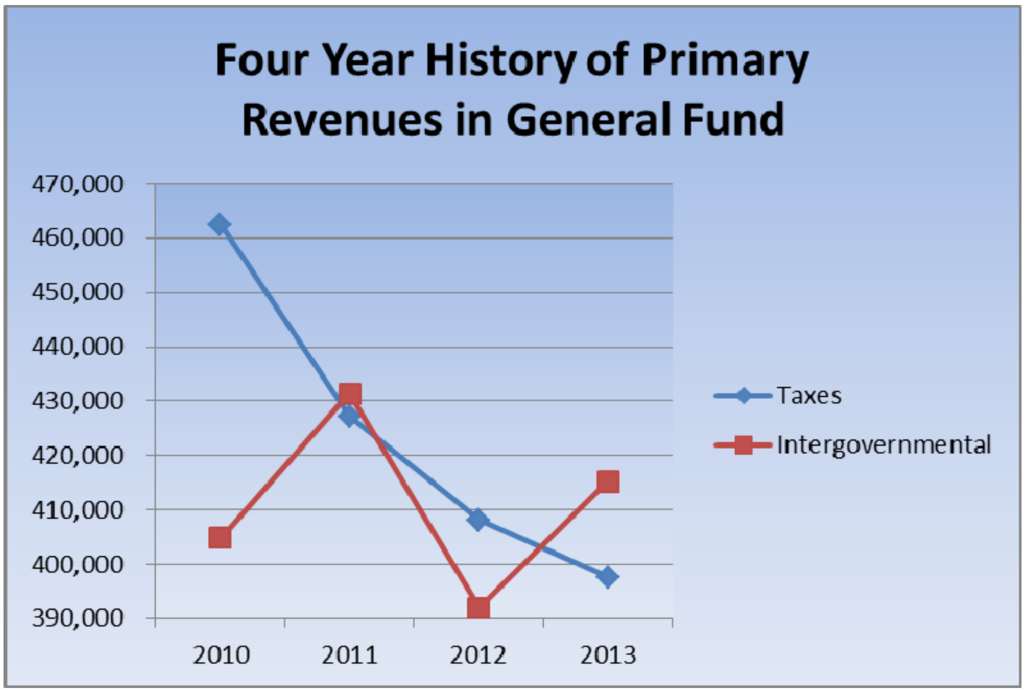
Of primary interest to the District is the **General Fund**, which accounts for the majority of revenues received and funds expended in the operations of the District. The following charts present the sources of revenues, the expenditures of the General Fund for the fiscal year ended June 30, 2013:

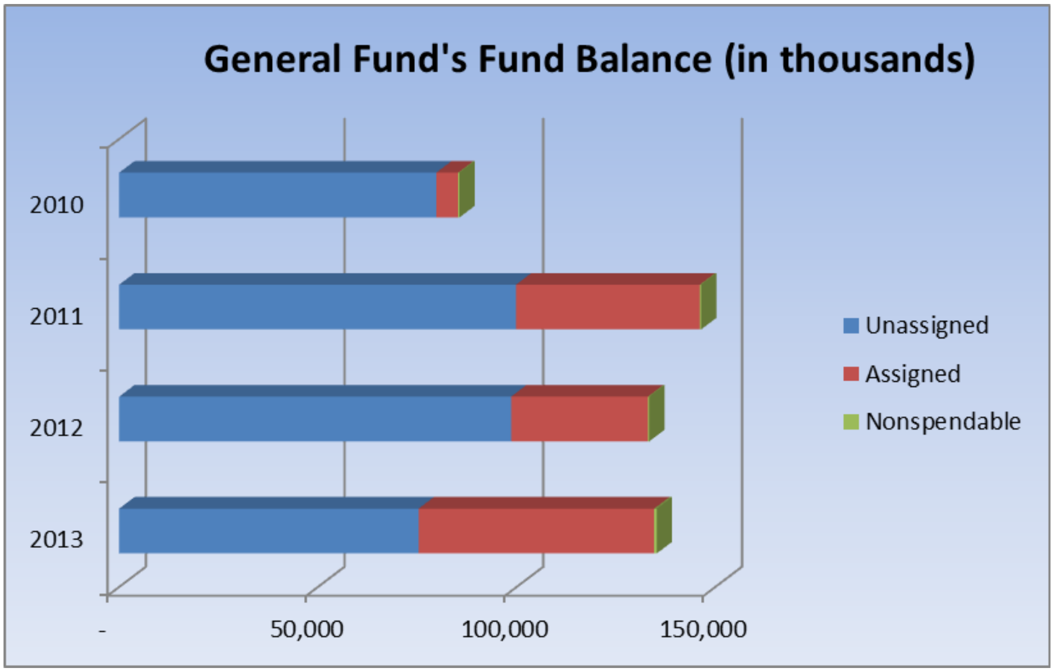


Total General Fund revenues for the fiscal year ended June 30, 2013 were $816,728,000. Revenues of the prior year were $803,193,000. The most significant variances were a increase in intergovernmental revenues of $23,171,000 and a decrease in taxes of $10,531,000.

Total expenditures during the year ended June 30, 2013 were $834,752,000, of which $595,444,000 related to instructional costs. Expenditures of the prior year were $839,627,000, of which $602,945,000 related to instructional costs. The most significant variance was a decrease in instructional expenditures of $7,501,000 and an increase in student transportation costs of $4,021,000.

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.





Fund balance of the General Fund at June 30, 2013 was $135,295,000, an increase from the prior year's balance of $133,933,000. 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 (0.5%) or assigned by the District for specific purposes (43.8%). This leaves the remaining 55.7% of the District's fund balance at June 30, 2013 was available for spending.

Other Governmental Funds

The District also maintains nineteen (19) *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 District.

Fiduciary Funds

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

REVIEW OF FINANCIAL STATEMENTS & FOOTNOTES

Statement of Net Position (In Thousands)

Assets:

The District's assets recognized a slight increase during the year ended June 30, 2013. Assets increased approximately $85,000 or 5.6% from $1,509,160 to $1,594,214.

Liabilities:

The District's liabilities decreased during the year ended June 30, 2013. Total liabilities went from approximately $177,556 to $110,741.

Net Position:

The District's equity position increased from approximately $1,454,691 to $1,483,473. This increase is reconciled on the District's "Statement of Revenues, Expenses and Changes in Net Position." It should be noted that a very large portion of the District's net position is invested in capital assets. While the District is reflecting approximately $1,483,473 in net position (or equity), only $149,881 is unrestricted and considered available for operations. In the end, the statement of net position reflects the fact that the District has invested heavily in itself over the history of the organization.

Statement of Revenues, Expenses and Changes in Net Position (In Thousands)

Total revenues of the District decreased from approximately $1,105,433 to $1,097,266. This represents decrease of 0.7% vs. prior year. Total expenses of the District increased from approximately $1,074,141 to $1,068,484. This represents a decrease of 0.5% vs. prior year.

Footnotes

Note 1 – Summary of Significant 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.

Footnotes (continued)

Note 2 – Legal Compliance - Budget

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 – Cash Equivalents, 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.

Note 6 & 7 – Interfund Assets and Liabilities & Transfers

This footnote discloses various transactions between funds.

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.

Footnotes (continued)

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

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 Post Employment Benefits (OPEB)

This footnote discloses information regarding the District's other post employment benefits, including funding policies and the amount of required contributions as compared to actual contributions.

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 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 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 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 District's internal controls and compliance with laws, regulations, etc. relative to certain Federal grant programs and the respective expenditures. In accordance with the respective standards, we did provide a qualified opinion on the 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.

REQUIRED COMMUNICATIONS

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

Our audit of the financial statements of the Cobb County Board of Education (the "District") for the year ended June 30, 2013 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 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 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 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 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 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 District's significant accounting estimates. Estimates significant to the financial statements include such items as the estimate for allowances for uncollectible taxes receivable, the estimated incurred but not reported liability for workers compensation claims payable, and the estimated lives of capital assets.

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 of 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.

Audit Adjustments

During our audit of the District's basic financial statements as of and for the year ended June 30, 2013, we did not have any adjustments to the funds of the District.

Uncorrected Misstatements

We had no passed adjustments.

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.

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.

Independence

We are independent of the 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 District.

ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

Recommendations for Improvement

During our audit of the financial statements as of and for the year ended June 30, 2013, we noted areas within the accounting and internal control systems that we believe can be improved. We noted certain items as material weaknesses and significant deficiencies in our supplemental reports on internal controls and compliance. Additionally, we noted certain items management should consider as part of its decision making process. Our recommendations (also commonly referred to as management points) are presented in the following paragraphs. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations.

We have discussed various matters with management pertaining to operations and controls including, but not limited to:

Material Weakness and Noncompliance – Federal Awards

1. In accordance with the terms of the Special Education Cluster (IDEA) and OMB Circular A-87, Cost Principles, for State, Local, and Indian Tribe Governments an employee who works solely on a single cost objective (i.e., a single Federal program whose administrative funds have not been consolidated) must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3). An employee who works in part on a single cost objective (i.e., a single Federal program whose administrative funds have not been consolidated), and in part on consolidated Federal administrative activities or activities funded from other revenue sources, must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraphs 8.h(4 & 5). For the fiscal year ended June 30, 2013, we tested forty (40) employees paid out of Special Education Cluster (IDEA) funds to determine if the School District was properly maintaining semi-annual certification or time and effort sheets and only requesting reimbursement for personnel salaries related to Special Education Cluster (IDEA) activities. We found personnel salaries for three (3) teachers paid out of Special Education Cluster (IDEA) funds were being requested for reimbursement; however, these teachers were not performing Special Education Cluster (IDEA) activities. Personnel salaries which were not incurred providing Special Education Cluster (IDEA) services were funded with Special Education Cluster (IDEA) funds. Therefore, unallowable costs were charged to the grant. Known questioned costs were $123,338 and likely questioned costs were $1,104,718. There was not a sufficient review and approval of the identified salaries being charged to the Special Education Cluster (IDEA) grant through the reimbursement process. We recommend the School District require an independent review of personnel salaries being charged to the Special Education Cluster to verify personnel are performing Special Education Cluster (IDEA) activities.

   Auditee's Response: Management concurs with this finding. The following actions have been taken or are planned to ensure only employees working under the Special Education Cluster are charted to the program:

   - Special Education program managers and staff assigned to administer Federal grants are required to attend appropriate Federal grant compliance training, including annual certification and time and effort requirements (OMB Circular A-87).

- The Special Education management team has appointed an employee within their staff to verify all special education personnel charged to any special education programs are indeed special education personnel.
- Management with Financial Services will work with the Special Education department to have the Technology department create periodic payroll reports that can be sent to Special Education to aid them in verifying the appropriate personnel are recorded to the correct program.
- The School District will evaluate current controls and adopt additional controls and procedures necessary to ensure compliance with our verification process.

Significant Deficiency and Noncompliance – Federal Awards

2. During our testing of a sample of the District's verification calculations, we noted two (2) discrepancies, out of our sample of thirty-seven (37) applications tested, in which a student received the incorrect benefits under the program. There were a total of 142 verified free/reduced applications for the year ended June 30, 2013. From our sample one student should have qualified for reduced meals and received free meals, while the other student received reduced meals and should have been flagged as a pay student receiving no discount. The District's review of the verification process did not identify the two incorrectly verified applications and thus charged the grantor for meal reimbursements for which the students did not qualify. Students received inappropriate benefits under the grant which the District incorrectly claimed under the grant. Therefore, unallowable costs were charged to the grant. Known questioned costs of $708 with likely questioned costs of $5,431. We recommend the District carefully review and utilize the Grants Management Circulars provided through the Office of Management and Budget along with the School Nutrition *Eligibility Manual for School Meals: Determining and Verifying Eligibility*, as these requirements provide official guidance from United States Department of Agriculture in relation to verification procedures.

   Auditee's Response: Management agrees with the finding. The following actions have been taken or are planned:

   - Program managers and staff have been given supplemental training on these two exceptions to prevent any similar errors in the future.
   - Program managers and staff will continue to attend all verification training sessions sponsored by the State Agency administering these federal programs.
   - The School District will evaluate current controls and adopt additional controls and procedures necessary to ensure full compliance with our verification process.

Management Recommendations

1. In accordance with GASB 51, Accounting and Financial Reporting for Intangible Assets, the Board is required to capitalize the internally generated computer software expenditures, but only for the expenditures incurred in the application development stage.

Activities in this stage include design of the chosen path, software configuration and interface, coding, installation to hardware, and testing, including parallel processing. As the finance department only sees the invoices and time sheets for the costs incurred they rely on the information provided by the Information Technology (IT) department to determine if the expenditures incurred fall under the Preliminary Project Stage, Application Development Stage, or Post-Implementation/Operating Stage, as defined by GASB 51. We suggest IT work with Finance to ensure communication and information is being provided to allow the Finance department to have the most up to date information available for accurate reporting of intangible assets.

Auditee's Response: Management in the Finance Department will work with the IT Department to ensure procedures are in place to accurately report information on intangible assets on internally generated computer software expenditures.

2. The Board's General Fund had total committed, assigned and unassigned fund balances at fiscal year-end which exceeded 15 percent of the 2014 fiscal year budgeted general fund expenditures by approximately $6.2 million. Although, included in these fund balance amounts is approximately $50.5 million that has been appropriated for use in the next fiscal year's budget. However, this violates provisions of Official Code of Georgia Annotated (O.C.G.A.) §20-2-167 as defined by Chapter 32 Preparing Operating Budgets of the Financial Management for Georgia Local Units of Administration (FMGLUA). O.C.G.A. §20-2-167 states in part: "Each local school system may, however, establish a single reserve fund or reserve account intended to cover unanticipated deficiencies in revenue or unanticipated expenditures, provided that the budget for any year shall not allocate to such reserve fund or reserve account any amounts which, when combined with the existing balance in such fund or account, exceed 15 percent of that year's total budget". Chapter 32, of the FMGLUA states in part: "The O.C.G.A. §20-2-167 limits this part of fund balance to 15 percent of the total budget. What this statute really means is that the general fund balance, after deducting all other reserves, may not exceed 15 percent of the next year's budgeted general fund expenditures".

   Auditee's Response: The General Fund total fund balances at the end of the fiscal year did exceed 15 percent of the 2014 fiscal year budgeted general fund expenditures. However, the Board did assign $50.5 million for appropriated expenditures in the 2014 budget and is expected to use those funds. Therefore, management does not believe the District will exceed this 15 percent in the future.

3. During our testing of the procurement process related to federal projects, we noted the Board was including a clause in the contracts for the covered transactions with vendors of federally funded projects. However, we noted the Board was not checking the vendors awarded the contracts against the Excluded Parties Listing on the System for Award Management (SAM) website. We recommend the Board also search the excluded parties listing for the vendors to ensure they are not suspended or debarred. These additional searches should be maintained and can be printed and retained in the contract file to provide documentation of the search to strengthen the controls over the procurement process to reduce the risk of contracting with a suspended or debarred party.

   Auditee's Response: We will evaluate the current process related to contracts with vendors to ascertain if additional steps are needed by the Board to be in compliance.

Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2013, 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. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*** was effective the year ending June 30, 2013. The District was not significantly affected by the implementation of this statement.

b) **Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*** was effective for fiscal years ending June 30, 2013. This statement addresses arrangements where a transferor conveys to an operator the right, and related obligation, to provide public services through the use and operation of a capital asset in exchange for significant consideration. The District should: apply certain due diligence to addressing the potential for restatements relative to the pronouncements; review various agreements previously entered into by the District; and, determine the potential effects from adopting the requirements of this pronouncement. The provisions of this pronouncement generally are required to be applied retroactively for all periods presented.

c) **Statement No. 61, *The Financial Reporting Entity: Omnibus (An Amendment to GASB No.'s 14 and 34)*** was effective for fiscal years ending June 30, 2013. This standard addresses the concept and definition of a component unit. This new statement raises the bar for an entity to be included in another primary government's financial statements. Additionally, the criteria determining whether a component unit should be blended or discretely presented has changed significantly, most notably that if it is expected that the primary government will repay substantially all of the component unit's debt, then the component unit should be blended. This statement also addresses the recognition of joint venture arrangements with other governmental units. The District should apply certain due diligence to addressing the potential effects from adopting the requirements of this pronouncement.

d) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was effective for fiscal year ending June 30, 2013. The provisions of this pronouncement generally are required to be applied retroactively for all periods presented.

FASB has adopted a new codification and its original pronouncements are considered to be non-authoritative. This standard identifies those provisions in FASB Statements & Interpretations, APB Opinions, ARB's, and AICPA Accounting Interpretations issued before November 30, 1989 that are applicable to state and local governmental entities and incorporated into the GASB's literature. GASB Statement No. 20 is superseded by this statement. Matters of significance to the District that are specifically addressed in this new standard include:

- Capitalization of interest costs
- Statement of net asset's classifications
- Special and extraordinary items
- Comparative financial statements
- Related party activities, transactions and relationships
- Prior period adjustments and restatements
- Accounting changes and error corrections
- Contingencies
- Extinguishment of debt
- Troubled debt restructuring
- Inventory
- Leases (capital, operating, etc.)
- Sales of real estate
- Real estate projects
- Research and development arrangements
- Insurance enterprises
- Lending activities
- Mortgage banking activities
- Regulated operations

e) **Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*** was effective for fiscal year ending June 30, 2013.

This statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements or "equity"). This statement of net position replaces what was previously presented as the statement of net assets and does not change the title of the governmental fund balance sheet or fund balance. This statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities.

A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. An example of a deferred outflow of resources is a government's hedging interest rate swap agreement in which the fair value becomes negative. If the hedge is determined to be effectively offsetting the changes in fair value of the debt, the decrease in the fair value of the derivative instrument would be reported as a liability with a corresponding deferred outflow of resources to reflect the fact that this decrease is not expected to be recognized in investment income in future periods.

A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. An example of a deferred inflow of resources is a service concession arrangement that involves a public toll road. If the government receives an up-front payment from an operator, the revenue associated with that payment will be recognized in future years because the arrangement that generated the up-front payment relates to those periods.

Statement No. 63 also amends certain provisions of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets and to include deferred amounts in the major fund calculation with assets or liabilities, as applicable.

A further breakdown of the change in the balance sheet presentation to the new statement of net position is as follows:

Assets:		
Current:		
Cash	$	xxx
Accounts Receivable		xxx
Inventory		xxx
Prepaids		xxx
	$	xxx
Non-current:		
Fixed Assets	$	xxx
Accumulated Depreciation		xxx
	$	xxx
Total Assets	$	xxx
Deferred Outflows:		
Grants Paid in Advance of Timing Requirements	$	xxx
Total Deferred Outflows	$	xxx

Liabilities:		
Current:		
Accounts Payable	$	xxx
Accrued Expenses		xxx
Bonds Payable		xxx
Notes Payable		xxx
	$	xxx
Non-current:		
Bonds Payable	$	xxx
Notes Payable		xxx
	$	xxx
Total Liabilities	$	xxx
Deferred Inflows:		
Grants Received in Advance of Timing Requirements	$	xxx
Taxes Received in Advance		xxx
Total Deferred Outflows	$	xxx
Net Position:		
Net Investment in Capital Assets	$	xxx
Restricted		xxx
Unrestricted		xxx
Net Position	$	xxx

f) **Statement No. 65, *Items Previously Reported as Assets and Liabilities*** was implemented for fiscal year ending June 30, 2013. GASB Concepts Statement No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

Examples of these changes are as follows:

Reclassifying certain assets to be deferred outflows of resources:

- Grants paid in advance of meeting time requirements;
- Deferred amounts from refunding of debt (debits);
- Costs to acquire rights to future revenues;
- Deferred losses from sale-leasebacks;

Reclassifying certain liabilities to be deferred inflows of resources:

- Grants received in advance of meeting time requirements;
- Taxes received in advance;
- Deferred amounts from refunding of debt (credits);
- Proceeds from sales of future revenues;
- Deferred gains from sale-leasebacks;
- “Unavailable” revenue in governmental funds.

Recognizing certain assets as outflows (expenses):

- Debt issuance Costs (other than bond insurance);
- Initial costs incurred by lessor in an operating lease;
- Loan origination costs (by entities in the lending business);
- Costs to acquire loans.

Recognizing certain assets as inflows (revenues):

- Loan origination fees, excluding points (by entities in the lending business);
- Commitment fees (after exercise or expiration);
- Fees received for sales of loans.

The School District elected to early implement the provisions of this pronouncement in conjunction with Statement No. 63

g) Statement No. 66, *Technical Corrections – 2012* will be effective for fiscal years beginning after December 15, 2012 resulting in the District’s fiscal year ending June 30, 2014. This pronouncement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of a state and local government’s risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for: (1) operating lease payments that vary from a straight-line basis; (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and, (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.

h) **Statement No. 67, *Financial Reporting for Pension Plans*** will be effective for fiscal years beginning after June 15, 2013 resulting in the District's fiscal year ending June 30, 2014. This pronouncement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules.

The changes noted above by Statement No. 67 are significant to pension plans, and we strongly encourage District officials to review the actual pronouncement and consider the potential effects on the financial reporting of the District.

i) **Statement No. 68, *Accounting and Reporting for Pensions*** will be effective for fiscal years beginning after June 15, 2014 resulting in the District's fiscal year ending 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.

<u>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</u>, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

<u>Defined Benefit Pension Plans</u>. Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. <u>The net pension liability is the difference between the total pension liability (the</u>

present value of projected benefit payments to employees based on their past service) and 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.

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 will 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 also will 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 is 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 Government officials to review the actual pronouncement and consider the potential effects on the financial reporting of the School District.

j) **Statement No. 69, *Government Combinations and Disposals of Government Operations*** will be effective for periods / fiscal years for years beginning after December 15, 2013 resulting in the School District's fiscal year ending 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 effect the School District.

k) **Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*** will be effective for fiscal years beginning after June 15, 2013 resulting in the School District's fiscal year ending June 30, 2014. School District officials should review the provisions of this new pronouncement and determine if the School District is a party to any form of non-exchange guarantees. If the School District has ever entered into any currently active guarantee agreements, the School District may be required to record certain accounting entries and, or disclose relevant details surrounding the guarantees.

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.

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education 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 District's 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:

1. American Recovery & Reinvestment Act (ARRA) information and issues;
2. GASB updates (several sessions);
3. Internal Controls Over Revenue and Cash Receipting;
4. Collateralization of Deposits and Investments;
5. SPLOST Accounting, Reporting and Compliance;
6. Internal Controls Over Accounts Payable, Payroll and Cash Disbursements;
7. Capital Asset Accounting Processes and Controls;
8. Grant Accounting Processes and Controls;
9. American Recovery & Reinvestment Act (ARRA) Updates;
10. Policies and Procedures Manuals;
11. Segregation of Duties;
12. GASB No. 51 – Intangible Assets;
13. Single Audits for Auditees;
14. GASB No. 54 – Governmental Fund Balance (subject addressed twice);
15. Best Budgeting Practices, Policies and Processes;
16. Internal Revenue Service (IRS) Compliance Issues, Primarily Payroll Matters;
17. CAFR Preparation (several times including a two (2) day hands-on course).
18. GASB No. 60, Service Concession Arrangements.
19. GASB No.'s 63 & 65, Deferred Inflows and Outflows (webcast)
20. GASB No. 61, the Financial Reporting Entity (webcast)

Governmental Newsletters. We 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 produced and delivered periodically {approximately ten (10) times per year}, and 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 Lauren Payne at LPayne@mjcpa.com (send corresponding copy to afraley@mjcpa.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

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. If you have any questions regarding any comments, suggestions or recommendations set forth in this memorandum, we will be pleased to discuss it with you at your convenience.

This information is intended solely for the use of the District's management, and others within the 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 District in the future. Thank you.