

Cobb County School District

Auditor's Discussion & Analysis
Financial & Compliance Audit Summary
June 30, 2017



Presented by:

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

**MAULDIN
& JENKINS**

Cobb County School District

Auditor's Discussion & Analysis (AD&A)

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PURPOSE OF ANNUAL AUDIT AGENDA

- ◆ Engagement Team and Firm Information.

- ◆ Overview of:
 - Audit Opinion;
 - Financial Statements, Footnotes and Supplementary Information; and
 - 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 1918. Large regional firm serving the Southeastern United States.
- Offices located in Macon, Atlanta, Albany, Bradenton, Chattanooga, Columbia, and Birmingham.
- 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 Southeast than any other certified public accounting firm requiring over 80,000 hours of service on an annual basis.
- Approximately 90 professional staff persons with current governmental experience.
- In past three (3) years, have served approx. 400 governments in the Southeast, including:
 - ✓ 100 cities;
 - ✓ 45 counties;
 - ✓ **50 school systems and 30 charter schools;**
 - ✓ 40 state entities;
 - ✓ 40 stand-alone public utility systems (water/sewer, transit, gas, electric, & airports)
 - ✓ 100 special purpose entities (housing, industrial development, health & welfare, other educational, retirement, libraries, etc.);
 - ✓ 100 water & sewer systems, 20 airport operations, 10 gas systems, 15 electrical utilities, & 10 transit services;
 - ✓ 11 communities in the Municipal Electric Authority of Georgia (MEAG); and,
 - ✓ Over 100 governments awarded the GFOA's and, or ASBO's Financial Reporting Certificates.
- Experience performing forensic audit services and information technology consultations.
- Experience performing municipal bond debt issuance attestation services serving clients with over \$11 billion in aggregate publicly issued debt instruments.
- 10th highest level of Single Audits conducted in U.S.A. approximating \$8 billion annually.
- Experience auditing a substantial part of the State of Georgia including approximately 30% of the State's General Fund, and a substantial number of the State's component units.

Engagement Team Leaders for Cobb County Board of Education Include:

- Adam Fraley - Engagement Lead Partner - 20 years experience, 100% governmental
- Christopher McKellar - Manager - 12 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, 2017.

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 2016 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 2017 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 \$2,118,000 offset by liabilities (and deferred inflows of resources) of approximately \$1,289,000. This results in the Government reported net position (or equity) of approximately \$829,000. Important to note the pension related deferred outflows and inflows along with the net pension liability (required of GASB No. 68 and No. 71) 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 \$1,445,000. Restricted net position amounts to approximately \$114,000 leaving unrestricted net position at a deficit of \$731,000.

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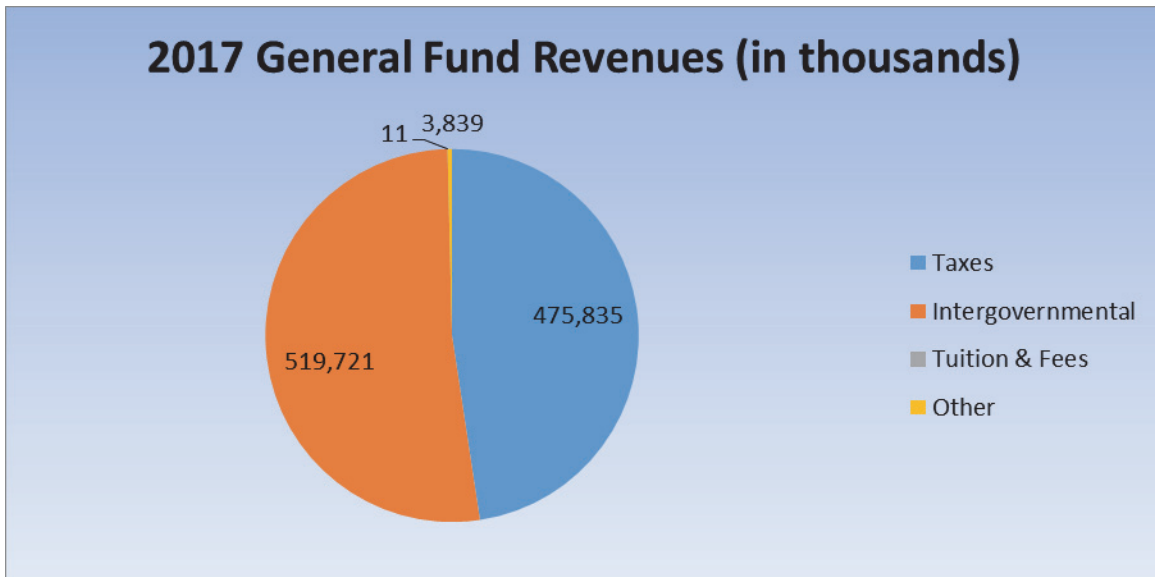
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The *Statement of Activities* attempts to report expenses in the first column with direct offsetting program revenues to the adjacent columns to arrive at a net cost of the functional areas of operation. General revenues (primarily property taxes and sales taxes) come to the rescue of the net cost functional areas resulting in the Government reporting a change in net position of approximately \$22,000 for the fiscal year ended June 30, 2017.

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, 2017:

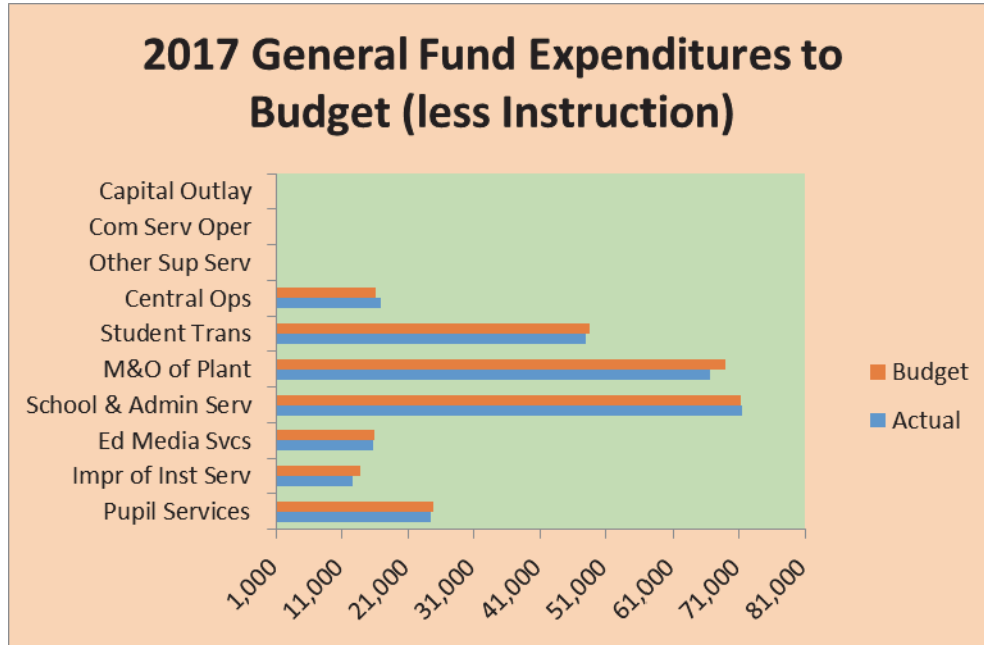


Total General Fund revenues for the fiscal year ended June 30, 2017 were \$999,406,000. Revenues of the prior year were \$937,228,000. The most significant variances were increases in tax revenues of \$32,194,000 and intergovernmental revenues of \$28,974,000.

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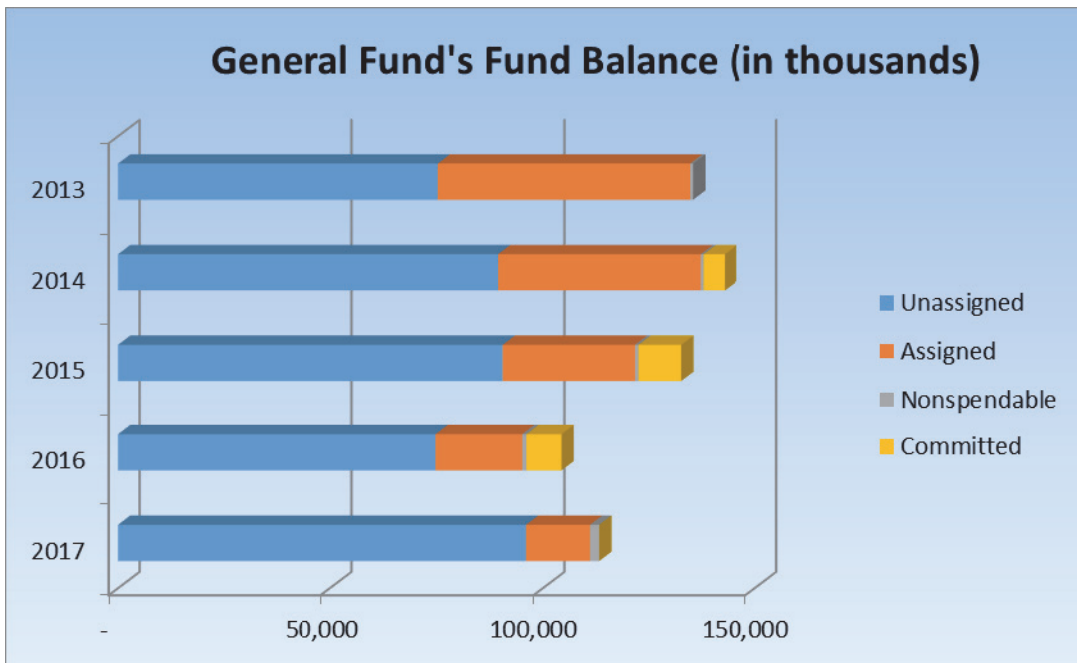
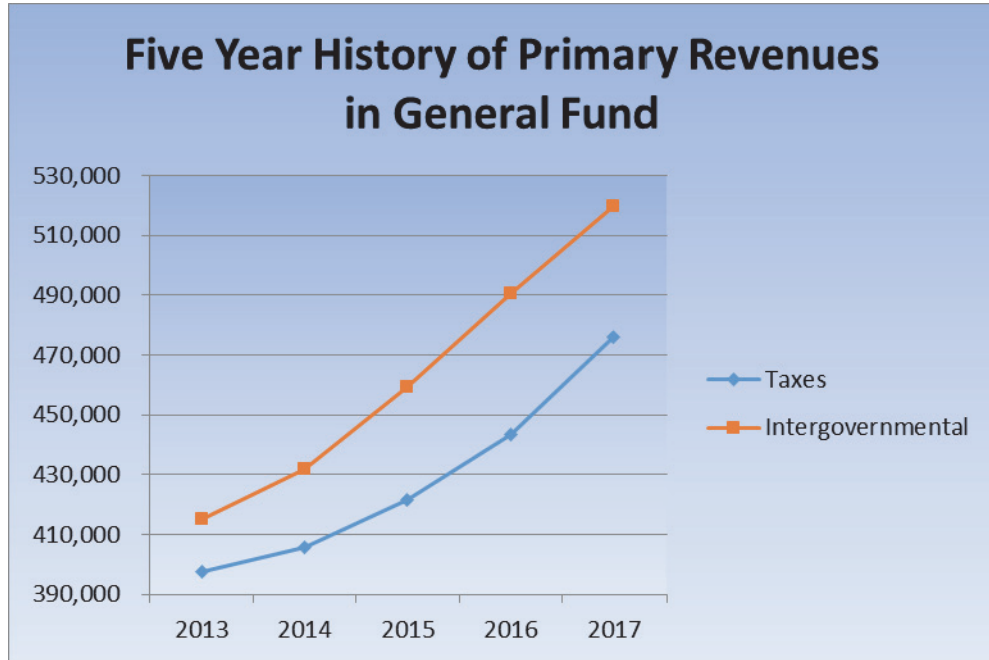
Total expenditures during the year ended June 30, 2017 were \$989,135,000, of which \$714,555,000 related to instructional costs. Expenditures of the prior year were \$962,567,000, of which \$694,399,000 related to instructional costs. The most significant variance was an increase in instructional expenditures of \$20,156,000.

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, 2017 was \$113,238,000, an increase from the prior year's balance of \$8,852,000. 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

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balance are nonspendable (1.9%), or assigned by the District for specific purposes (13.3%). This leaves the remaining 84.8% of the District's fund balance at June 30, 2017 available for spending.

Other Governmental Funds

The School 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. Three (3) 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 – Deficit Fund Equity: This footnote discloses information regarding any deficits in any of the District's funds at year-end and management's plans for alleviating those deficits.

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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, 2017 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, 2017, 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, 2017, 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 has not fully implemented 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 our current financial system, CGI. The District needs to move toward implementing a comprehensive financial accounting system.

Management's Response: Management agrees Financial Services needs to fully implement a comprehensive financial accounting system. The Cobb County School District started implementing the MUNIS financial system in FY18 and plans to go live with full implementation July 2019. The payroll functionality of the MUNIS system was implemented in FY 15.

2. The Cobb County School District utilizes multiple automated systems to carry out the District's financial operation functions. 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 response to number 1 above, the District plans to fully implement all MUNIS Financial System modules.

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3. The District's accounting function utilizes reports internally developed by the District's Technology Division outside of the main external accounting system (CGI) due to the District's internal processes. It is our recommendation the District move toward a comprehensive accounting system for all of its financial applications and financial reports.

We also recommend the District utilize the fixed asset accounting module as soon as possible that is available in MUNIS. The District should start reviewing their assets to ensure the data in the current system is correct before any data is entered into a new fixed asset system.

Management's Response: Management agrees there is a need for a financial system such as the MUNIS financial system that contains all the District's financial information and can produce reports from the system based on data contained in one system. Management also plans to review the District's assets in the current fixed asset system to ensure the data entered into the MUNIS system during migration is correct.

Local Schools

4. During our audit of Cobb County Local Schools, we noted the limited number of employees involved in the various schools and the resulting overlapping of duties cause segregation of duties to be difficult. The following are weaknesses in internal controls that were noted during interviews regarding internal control procedures. During our test procedures, we noted the bookkeeper is responsible for collecting, recording, reconciling collections, preparing deposits and depositing cash. The bookkeeper is responsible for recording entries into the activity ledger, receiving purchases, safeguarding blank checks and mailing signed checks. Without some segregation of duties within these functions, there is increased exposure that someone could intentionally or unintentionally misappropriate assets of the District. We recommend the District review its processes and determine where it can effectively segregate duties to alleviate the segregation of duties issues as described above and strengthen internal controls.

Management's Response: Management agrees segregation of duties at the school level are a challenge for the District because of limited amount of staff resources to handle financial duties. This is not uncommon for School Districts. Financial Services recommends schools utilize their Backup Bookkeeper and other clerical staff to mitigate the risks associated with the inadequate separation of bookkeeper duties of receiving purchases, disbursement, recording processes, safeguarding blank checks, as well as mailing the signed checks. Additionally, Financial Services recommend schools utilize the Backup Bookkeeper for collecting, recording and preparing deposits. Management will continually review current processes to minimize this concern.

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5. During our audit of Cobb County Local Schools, in our initial inquiry and review of the risk assessment document prepared by the District's Internal Compliance Department, we noted significant turnover in bookkeepers over the past seven years. Starting with fiscal year 2011 and continuing through fiscal year 2017, sixty-nine (69) schools have received at least one new bookkeeper over this time period. This is a turnover rate of almost 63%. This considerable bookkeeper resignation rate lends itself to additional inherent risk in the financial stability at these schools. We recommend the District review its policies and pay rates to establish better employee retention and establish controls to prevent the inherent risk of material misstatements related to the Local Schools Accounting.

Management's Response: Management agrees there has been a high rate of turnover in bookkeepers at the local schools. As with all positions in the District, employee retention initiatives will be reviewed. An increase rank and pay for bookkeepers is a consideration in the budget development process. Any recommendation by Management will be based on availability of funds. Internal Compliance will ensure there are established controls and procedures to prevent the inherent risk of material misstatements related to the Local Schools Accounting.



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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, 2017, 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. 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*.

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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.
- 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.

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- b) **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 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.

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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.
- 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.

- c) **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.

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.

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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.

d) Statement No. 81, *Irrevocable Split-Interest Agreements* was issued in March of 2016, and is effective for financial statements for periods beginning after December 15, 2016 resulting in the School District's fiscal year ending June 30, 2018.

Irrevocable split-interest agreements (which are prevalent at colleges and universities) whereby split-interest agreements in which an asset is given to a 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. We do not expect this pronouncement to affect the financial reporting of the School District.

e) Statement No. 82, *Pension Plans* was issued in April 2016, and is effective for the first reporting period in which the School District's pension plan's measurement date is on or after June 15, 2017. No real significant matters noted in this standard which addresses:

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- Presentation of payroll-related measures in the Required Supplementary Information of the annual audited financial report. Covered payroll is defined as the payroll on which contributions are based.
 - Selection of actuarial assumptions. Any deviation from guidance of Actuarial Standards Board is not in conformity with GASB No. 67 & 68.
 - Classification of payments made by employers to satisfy contribution requirements:
 - Payments made by employer to satisfy contribution requirements that are identified as plan member contributions should be classified as “plan member contributions” for GASB No. 67, and as “employee contributions” for GASB No. 68.
 - Expense to be classified as other compensation elements.
- f) **Statement No. 83, *Certain Asset Retirement Obligations*** was issued in November 2016, and is effective for the first reporting period beginning after June 15, 2018. An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes the criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. Timing could be based on the occurrence of external laws, regulations, contracts or court judgments. Examples include the closure of a nuclear reactor or a sewage treatment facility. This statement addresses the financial reporting and accounting as well as the respective disclosures relative to ARO's.
- g) **Statement No. 84, *Fiduciary Activities*** was issued in January 2017 and is effective for the first reporting period beginning after December 15, 2018. This statement establishes criteria for identifying fiduciary activities with a focus on: 1) whether a government is controlling the assets of the fiduciary activity; and, 2) the beneficiaries with whom a fiduciary relationship exists.

Further, this statement describes four (4) fiduciary funds that should be reported, if applicable: 1) pension and other employee benefit trust funds; 2) investment trust funds; 3) private-purpose trust funds; and, 4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

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h) **Statement No. 85, *Omnibus 2017*** was issued in March 2017 and is effective for the first reporting period beginning after June 15, 2017. This statement addresses a variety of topics including issues related to:

- Component Units - blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Goodwill - reporting amounts previously reported as goodwill and “negative” goodwill;
- Real Estate - classifying real estate held by insurance entities;
- Fair Value Measurement and Application - measuring certain money market investments and participating interest earning investment contracts at amortized cost;
- Postemployment benefits (pensions and other postemployment benefits [OPEB]):
 - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
 - Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
 - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
 - Classifying employer-paid member contributions for OPEB;
 - Simplifying certain aspects of the alternative measurement method for OPEB; and,
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

i) **Statement No. 86, *Certain Debt Extinguishment Issues*** was issued in May 2017 and is effective for the first reporting period beginning after June 15, 2017. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed into an irrevocable trust for the sole purpose of extinguishing debt. This statement also addresses prepaid insurance on debt that is extinguished and the notes to financial statements for debt that is in-substance defeased.

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- j) **Statement No. 87, Leases** was issued in June 2017 and is effective for the first reporting period beginning after December 15, 2019. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that a lease is the financing of the right to use an underlying asset.

Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

Lease Term: The lease term is defined as the period during which a lessee has a non-cancelable right to use an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option;
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option;
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option;
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised. Lessees and lessors should reassess the lease term only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option;

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- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option;
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

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

Lessee Accounting: A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting: A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should

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include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Contracts with Multiple Components and Contract Combinations: Generally, a government should account for the lease and non-lease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

Lease Modifications and Terminations: An *amendment* to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by re-measuring the lease liability and adjusting the related lease asset by a lessee and re-measuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases and Leaseback Transactions: Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

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k) **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:

- **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 2017.
- **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) 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.

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 No. 72, Fair Value Measurement and Application
- GASB No.'s 74 & 75, OPEB
- GASB No. 77, Tax Abatement Disclosures
- GASB Updates (ongoing and several sessions)
- Grant Accounting Processes and Controls
- Information Technology Risk Management
- 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 the Uniform Guidance for New Single Audits
- SPLOST Accounting, Reporting & Compliance

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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@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

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, 2017**
 Workpaper: **All Funds AJEs**

		Debit	Credit
		Description	
General Fund:			
	Other	69,923	
	Intergovernmental		69,923
		<u>69,923</u>	<u>69,923</u>
Misc. Grants:			
	Unavailable Revenue		565,736
	Other	565,736	
		<u>565,736</u>	<u>565,736</u>
Local School Funds:			
	Athletic Ticket Sales	473,931	
	Tuition & Fees		473,931
		<u>473,931</u>	<u>473,931</u>