Cobb County School District

Annual Audit Agenda
June 30, 2012

Presented by:
Adam Fraley
of

Mauldin & Jenkins
Certified Public Accountants, LLC

Cobb County Board of Education

Annual Audit Agenda

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PURPOSE OF ANNUAL AUDIT AGENDA

- Engagement Team
- Overview of:
    - Audit Opinion
    - Financial Statements, Footnotes and Supplementary Information
    - Compliance Reports
    - Audit Scopes & Procedures
- Required Communications under Government Auditing Standards
- Accounting Recommendations and Related Matters
- Answer Questions

MAULDIN & JENKINS – GOVERNMENTAL PRACTICE

General Information:

- Founded in 1920.
- Large regional firm serving the Southeastern United States.
- Offices located in Macon, Atlanta, Albany, Bradenton, FL and Birmingham, AL with firm governmental leadership positioned in the Atlanta (and Macon) offices.
- Approximately 240 personnel are employed at Mauldin & Jenkins.

Governmental Sector:

- Largest specific industry niche served by Firm representing 27% of Firm practice.
- Serve more governmental entities in Georgia than any other certified public accounting firm requiring over 60,000 hours of service on an annual basis.
- Approximately 65 professional staff persons with current governmental experience.
- Current auditor for over 185 total governments in the Southeast, including approximately:
  - ✓ 50 cities;
  - ✓ 30 counties;
  - ✓ 35 school systems;
  - ✓ 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; and 2 State of Alabama entities.

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

- Adam Fraley, Engagement Partner – 16 years experience, 100% governmental
- James Bence, Engagement Manager – 9 years experience, 100% governmental
- Christopher McKellar, Engagement Manager – 7 years experience, 100% governmental

MAULDIN & JENKINS – ADDITIONAL INFOMATION

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

AUDIT OPINION

District's Responsibility

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 an opinion on these financial statements.

Auditing Standards

We audited the District's financial statements 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.

Clean Opinion

The financial statements of the District are considered to present fairly the financial position and results of operations as of, and for the year ended June 30, 2012.

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 2011 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 2012 fiscal year CAFR, and is included in the Introductory Section.

OVERVIEW OF FINANCIAL STATEMENTS

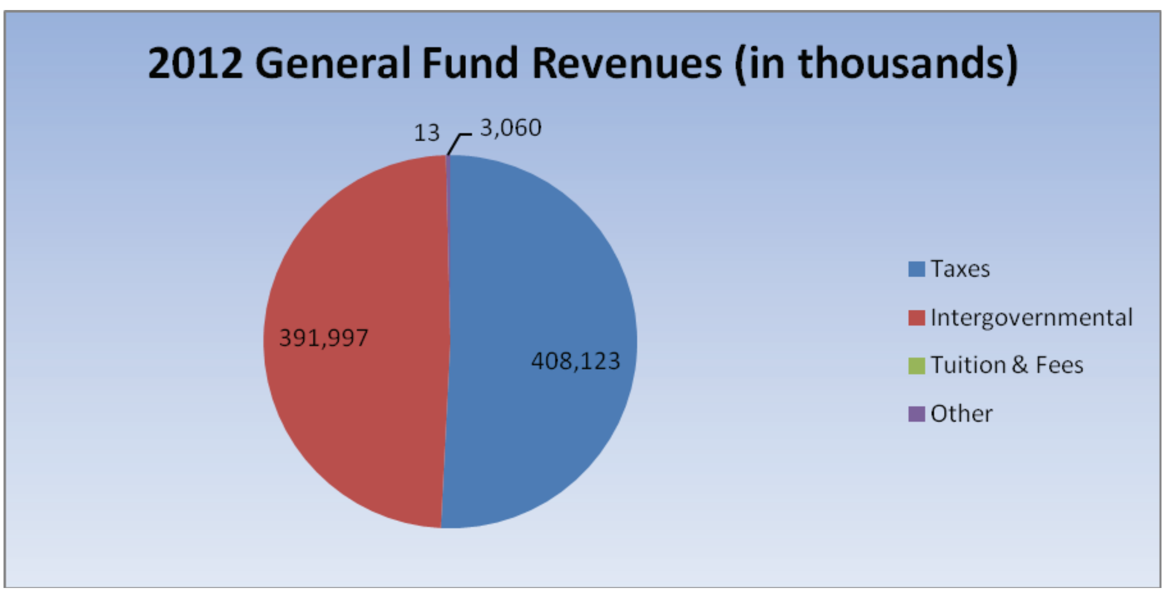
The District's basic financial statements include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

The **government-wide financial statements** provide a broad overview of all of the District's funds. The *Statement of Net Assets* presents information on all assets and liabilities of the District, with the difference between the two reported as net assets. 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.

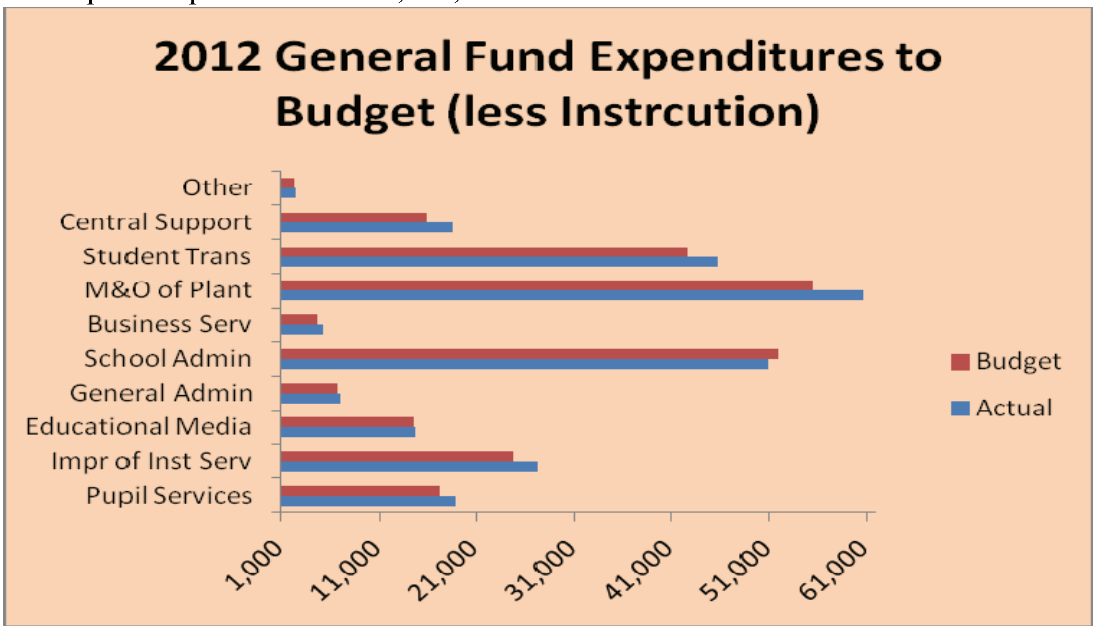
General Fund

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, 2012:

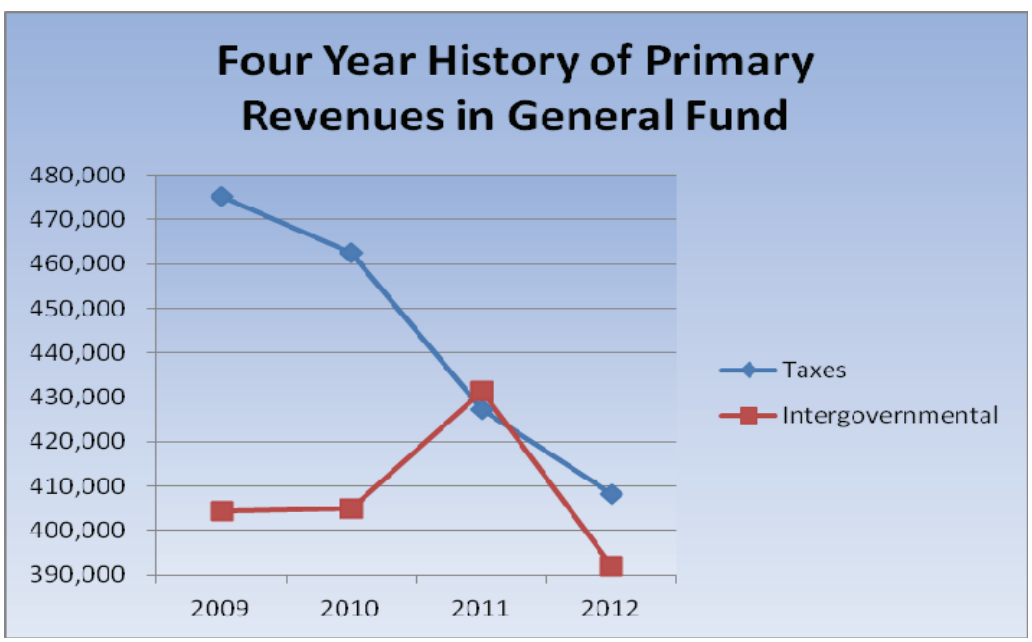


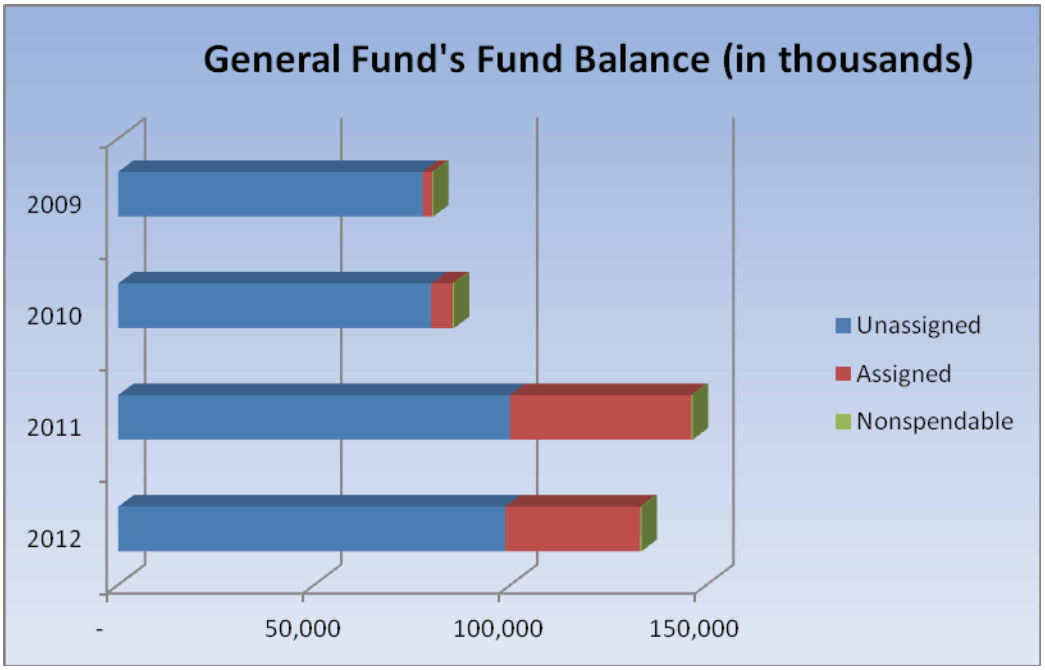
Total General Fund revenues for the fiscal year ended June 30, 2012 were $803,193,000. Revenues of the prior year were $862,027,000. The most significant variances were a decrease in intergovernmental revenues of $39,355 and a decrease in taxes of $19,051.

Total expenditures during the year ended June 30, 2012 were $839,627,000, of which $612,085,000 related to instructional costs. Expenditures of the prior year were $863,595,000, of which $603,039,000 related to instructional costs. The most significant variance was a decrease in instructional expenditures of $9,046,000 and a decrease in maintenance and operation of plant expenditures of $5,173,000.



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, 2012 was $135,398,000, a decrease from the prior year of $148,454,000. 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 (0.3%) or assigned by the District for specific purposes (25.4%). This leaves the remaining 72.8% of the District's fund balance at June 30, 2012 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 Assets (In Thousands)

Assets:

The District's assets recognized a slight increase during the year ended June 30, 2012. Assets decreased approximately $31,865 or 2.0% from $1,601,025 to $1,509,160.

Liabilities:

The District's liabilities decreased during the year ended June 30, 2012. Total liabilities went from approximately $177,556 to $114,487. The decrease is primarily attributed to the District's principal payments on long-term borrowings.

Net Assets:

The District's equity position increased from approximately $1,423,469 to $1,454,761. This increase is reconciled on the District's "Statement of Revenues, Expenses and Changes in Net Assets." It should be noted that a very large portion of the District's net assets is capital assets net of related debt. While the District is reflecting approximately $1,454,761 in net assets (or equity), only $147,553 is unrestricted and considered available for operations. In the end, the statement of net assets 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 Assets (In Thousands)

Total revenues of the District decreased from approximately $1,122,020 to $1,105,433. This represents decrease of 1.5% vs. prior year. Total expenses of the District increased from approximately $1,050,373 to $1,074,141. This represents growth of 2.3% 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 – Short-term Notes

This footnote discloses the District's short-term debt activity for the year, and other information and maturities for this short-term debt (revenue anticipation note).

Note 10 & 13 – 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 11 – On Behalf Payments

This footnote discloses the amount of health insurance and retirement contributions paid on behalf of the District by other governments.

Note 12 – 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 14 – Compensated Absences

This footnote discloses information regarding the District's policy regarding the accounting and reporting of vacation benefits.

Note 14 – 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 15 – 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 an unqualified (or positive) 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.

AUDIT SCOPES AND PROCEDURES

1. Governmental audit programs were used in all areas.
2. We observed and made independent test counts of 33% of the School Food Services inventory at June 30, 2012. Our test counts consisted of approximately 27 different inventory items. There were no differences noted between our test counts and those of the District. We also performed certain price tests to determine the propriety of valuation of inventory.
3. For purposes of assessing the adequacy of the allowance for doubtful accounts, we reviewed the aging of property tax receivable, and considered the current economic environment coupled with recent history of the District. We also reviewed subsequent collection activity.
4. We reviewed supporting documentation for a sample of additions to capital assets during the year ended June 30, 2012.
5. We performed a search for unrecorded liabilities via review of unpaid vouchers and subsequent disbursements.

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, 2012 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 financial statements as of and for the year ended June 30, 2012, we proposed a few adjustments which were posted by management. The detail of these adjustments are included with our Audit Agenda package of information for your review and discussion.

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.

We did, however, have a disagreement related to the reporting of a compliance and internal control finding. See the Schedule of Findings and Questioned Costs in the compliance section of the CAFR for more details.

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, 2012, 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) During our testing of the District's calculation of matching or cost sharing for this program, we identified the District was using a cost savings of product installation as a portion of the match. The District determined the anticipated costs of outsourcing the labor of outside mechanics would have cost approximately $72,000; however, using their own fleet employees, the District was able to install the devices. As such the District recognized a cost savings to the District of approximately $37,000. This cost savings was reported as a portion of the District's required match for the program. The District was operating under the guidance of the local office of the Environmental Protection Agency (EPA), who provided guidance to the District acknowledging the District would be permitted to include the cost savings as a portion of the grant's required match. Through this guidance from their local office, the District continued to seek reimbursement from the federal program at the original agreed upon federal participation rate of 86.48%. As the District was not familiar with the general requirements as provided by OMB through

Circular A-110 and A-102 Common Rule, the District operated under the guidance of the local office of EPA. Through the reporting of the cost savings as a portion of the match or cost sharing, the District overstated their participation in the project. The District's actual cost sharing requirement was 13.52%. Based on the eligible matching costs, the District contributed $120,419 which should have limited the federal participation in the project to the lesser of the federal contribution rate (86.48%) and the maximum award ($1,240,275). Based on the reduced participation of the District, the federal program was charged $37,300 in excess of the grant's participation rate. We recommend the District carefully review and utilize the Grants Management Circulars provided through the Office of Management and Budget, as these requirements provide official guidance in instances where the grant agreement or a local division of the federal government provides conflicting information.

Auditee's Response: We disagree with the finding, as it is presented. The District worked directly with the local Region 4 office of the Environmental Protection Agency, and relied on their guidance and direction, as they were a branch of the federal awarding agency. The guidance which the District was provided acknowledged the intended use of cost savings or "leverage" as a portion of the required match, since the District was able to install the parts in-house rather than outsourcing to a local vendor. As such, we complied with the guidance we were provided by our local program coordinator. We will ensure controls are in place to carefully review all grant documents and ensure all compliance requirements are carefully considered upon receipt of all future grant awards.

Auditor's Response: While we understand the position and difficult situation the District is now placed as a result of adhering to the guidance which was provided by the local regional programmatic office, the District unfortunately failed to comply with the compliance requirements as issued by the Office of Management and Budget (OMB) Circular A-133. As a means of verifying the required reporting and treatment for this situation, we have contacted the National Single Audit Coordinator for the Office of Inspector General of the U.S. Environmental Protection Agency and have confirmed the required reporting. While the District was working and operating under the guidance of the local programmatic office, they were given guidance which contradicts the requirements of the OMB Circular A-133 and thus fails to comply with the requirements as stated above.

Management Points

1) During our search for unrecorded liabilities it was noted through review of the approval process part of the three way match between the purchase order, invoice and receiver that the identification of the individual who receives the item is not documented in the system but is documented through a "checkbox" in the system. We were unable to determine when the goods were received or by whom they were received. We suggest the controls

related to documentation be improved to permit the process to include the date the goods were received or require the packing slip to be included in the three way match.

The District's Response
We will evaluate the process whereby our receiving departments document the date of all receipts.

2) During our testing of deferred revenues, a donation from a non-governmental entity in the amount of $10,000 was being deferred at the fund level which should have been recognized as revenue in the current year. Per GASBS 33-*Accounting and Financial Reporting for Nonexchange Transactions*, this voluntary nonexchange transaction should be recognized as revenue once all applicable eligibility requirements are met and the resources are available. In this case all eligibility requirements were met and therefore the receipt should be recognized as revenue. If the donation is specified for a certain purpose, a purpose restriction should be placed on the resulting fund balance. We suggest all grants and donations be evaluated for revenue recognition in accordance with GASBS 33.

The District's Response
We will ensure all receipts of contributions or intergovernmental nature are properly evaluated and reported.

3) During our testing of revenue in the District Wide Building Fund, it was noted the Board did not accrue revenue in the amount of $502,000 which was received subsequent to year end. It was noted the revenue was insurance proceeds which were for the replacement cost of various school buildings that were damaged in previous years and being repaired in the current year. The School District received funds for replacement costs that the School District incurred prior to year end and therefore the insurance proceeds revenue should be accrued as of June 30, 2012.

The District's Response
We will ensure all year end revenues are reported in the prior period.

4) During our review of Purchasing/Warehouse Fund, an Internal Service Fund, we noted the Board had a significant amount of transfers in. An audit entry was required to reclassify the approximately $1,099,000 from a transfer in, to charges for services. Internal service funds, by nature, should be cost reimbursement funds, and all expenses are charged to the various funds receiving the benefits, in the form of charges for services. In accordance with GASB No. 34, paragraph 68, internal service funds should operate on a cost-reimbursement basis. As such the Board should ensure all expenses of the fund are appropriately being charged to the participating funds each year.

The District's Response
We will review the reporting of each internal service fund to ensure the expenses or costs of the fund are being charged to the participants on an annual basis.

Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2012, we noted other matters which we wish to communicate to you in an effort to keep the District abreast of accounting matters that could present challenges in financial reporting in future periods.

1) New GASB Standards

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. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*** which is currently effective and attempts to incorporate into GASB's literature certain accounting and financial reporting guidance that is currently included in the AICPA's Statements on Auditing Standards. Subjects include: related party transactions; subsequent events; and going concern considerations. The District was not significantly affected by the implementation of this statement.

b) **Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*** is effective the year ending June 30, 2012. The District was not significantly affected by the implementation of this statement.

c) **Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.** This statement is currently effective and addresses financial reporting issues for governments who have declared bankruptcy. The District was not significantly affected by the implementation of this statement.

d) **Statement No. 59, *Financial Instruments Omnibus*** is currently effective and deals with certain financial instruments and external investment pools. The District was not significantly affected by the implementation of this statement.

e) **Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*** will be effective for fiscal years beginning after December 15, 2011 resulting in the District's fiscal year 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.

f) **Statement No. 61, *The Financial Reporting Entity: Omnibus (An Amendment to GASB No.'s 14 and 34)*** will be effective for fiscal years beginning after June 15, 2012 resulting in the District's fiscal year 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.

g) **Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*** will be effective for fiscal years beginning after December 15, 2011 resulting in the District's 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

h) **Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*** will be effective for fiscal years beginning after December 15, 2011 resulting in the District's 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

i) **Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (An Amendment of GASB Statement No. 53)*** is effective for government fiscal years beginning after June 15, 2011 which resulted in being effective with the close of fiscal year June 30, 2012. This statement is intended to improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap **counterparty, or a swap counterparty's credit support provider, is replaced.** This statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Hedge accounting entails reporting fair value changes of a hedging derivative as either deferred outflows of resources or deferred inflows of resources, rather than recognizing those changes in investment income. When a hedging derivative is terminated, Statement 53 requires that hedge accounting cease and all accumulated deferred amounts be reported in investment income.

As Statement 53 was being implemented, questions had arisen regarding situations in which a government has entered into a hedging interest rate swap or a hedging commodity swap and the swap counterparty (or the swap counterparty's credit support provider) commits or experiences an act of default or a termination event under the swap agreement through no fault of the government. When a swap counterparty (or a swap counterparty's credit support provider) is replaced through an assignment or an in-substance assignment, the GASB concluded that the government's financial position remains unchanged.

j) **Statement No. 65, *Items Previously Reported as Assets and Liabilities*** will be effective for fiscal years beginning after December 15, 2012 resulting in the District's fiscal year ending June 30, 2014. 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.

k) **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.

l) **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.

m) **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.

Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

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

3) Yellow Book Standards

While GASB has been issuing new financial reporting pronouncements affecting governmental units, the Government Accountability Office (GAO) has been issuing revised standards relative to the audits of state and local governments. An exposure draft was issued in August 2010 by the GAO amending and revising *Government Auditing Standards* (the Yellow Book). Finally, it has now been finalized. The more significant items addressed by the GAO in this revision of auditing standards include:

- **a)** Actions required if an impairment to auditor independence is identified;
- **b)** Definition of those charged with governance consistent with other AICPA audit guidelines;
- **c)** Definition of internal control deficiencies to be consistent with other AICPA audit guidelines;
- **d)** Promoting modernization of auditing standards consistent with technologies of today;
- **e)** Added requirements for reporting restatements of previously issued financial statements;
- **f)** Addressed standards related to 1) performance audits, and 2) internal audits; and,
- **g)** Changed and emphasized continuing education requirements of auditors in the governmental sector to obtain a minimum of 80 hours of continuing education every two (2) years. The GAO emphasized a significant component of these hours must be directly relevant to governmental auditing. Further, audit team specialist (actuaries, engineers, etc.) have specific guidelines as well.

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.

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.