

Management Report

for

Cyber Village Academy
St. Paul, Minnesota
June 30, 2015

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PRINCIPALS

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To the Board and Management of
Cyber Village Academy
St. Paul, Minnesota

We have prepared this management report in conjunction with our audit of Cyber Village Academy's (the Academy) financial statements for the year ended June 30, 2015. The purpose of this report is to make certain required communications to those who have responsibility for oversight of the financial reporting process and to provide comments resulting from our audit process. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your Academy
- Legislative Summary
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the Academy, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to school district and charter school financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 16, 2015

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the Board, administration, or those charged with governance of the Academy.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, major fund, and aggregate remaining fund information of the Academy as of and for the year ended June 30, 2015, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the Academy's financial statements for the year ended June 30, 2015:

- We have issued an unmodified opinion on the Academy's annual financial statements.
- The results of our procedures did not disclose any material weaknesses involving the Academy's internal control over financial reporting.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported one finding based on our testing of the Academy's compliance with Minnesota laws and regulations:
 - The Academy did not have sufficient pledged collateral coverage for its deposits in excess of federal depository insurance limits throughout the year as required by Minnesota Statutes.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the Academy's financial statements for the year ended June 30, 2014, we performed procedures to follow-up on any findings and recommendations that resulted from our prior year audit. We reported the following finding that was corrected by the Academy in the current year:

- During our fiscal 2014 audit, we reported that 1 of 25 disbursements tested was not paid within 35 days of the receipt of the goods or services, or receipt of the invoice for goods or services, as required by state statutes. We noted no similar findings based on our testing in the current year.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 of the notes to basic financial statements.

The Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement provides new guidance on accounting and financial reporting for pensions accounted for in the financial statements of plan employers. This change required the Academy to report a change in accounting principle adjustment to beginning equity on the entity-wide financial statements as described in Note 1 of the notes to basic financial statements.

The application of remaining policies was not changed during the fiscal year ended June 30, 2015. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the Academy. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other schools and the MARSS data for the current fiscal year is not finalized until after the Academy has closed its financial records for the fiscal period. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident school and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to other schools for special education services which are computed using formulas derived by the Minnesota Department of Education. Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the Academy has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the Academy.

The Academy has recorded activity for pension benefits. This obligation is calculated using actuarial methodologies described in GASB Statement No. 68. This actuarial calculation includes significant assumptions, including projected changes, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation of capital assets involves estimates pertaining to useful lives.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated November 16, 2015.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to Management's Discussion and Analysis and pension-related required supplementary information (RSI), which is required supplementary information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental information and Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table accompanying the financial statements, which are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. A summary of legislative changes affecting school districts and charter schools included later in this report gives an indication of how complicated the funding system is. This section provides some state-wide funding and financial trend information.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota charter schools is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a school is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment schools.

The table below presents a summary of the formula allowance for the past decade and as approved for the 2016 and 2017 fiscal years. The amount of the formula allowance and the percentage change from year to year excludes non-comparable changes such as temporary funding increases, the “roll-in” of aids that were previously funded separately, and the one-time replacement of a portion of general education aid with federal fiscal stabilization funds in fiscal 2010.

| Fiscal Year Ended June 30, | Formula Allowance | |
|-------------------------------|-------------------|---------------------|
| | Amount | Percent Increase |
| 2006 | \$ 4,783 | 4.0 % |
| 2007 | \$ 4,974 | 4.0 % |
| 2008 | \$ 5,074 | 2.0 % |
| 2009 | \$ 5,124 | 1.0 % |
| 2010 | \$ 5,124 | – % |
| 2011 | \$ 5,124 | – % |
| 2012 | \$ 5,174 | 1.0 % |
| 2013 | \$ 5,224 | 1.0 % |
| 2014 | \$ 5,302 | 1.5 % |
| 2015 | \$ 5,831 | 2.0 % * |
| 2016 | \$ 5,948 | 2.0 % |
| 2017 | \$ 6,067 | 2.0 % |

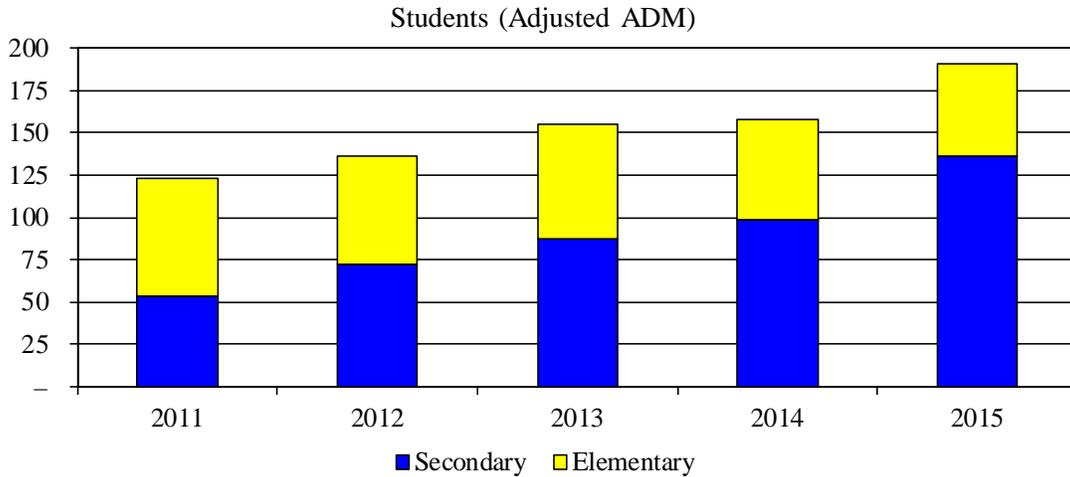
* The \$529 increase in 2015 is offset by changes to pupil weightings and the general education aid formula that reduced the increase to the equivalent of \$105, or 2.0 percent, state-wide.

In recent years, modest increases in the formula allowance have forced many schools to continually cut expenditure budgets or seek other revenue sources in order to maintain programs.

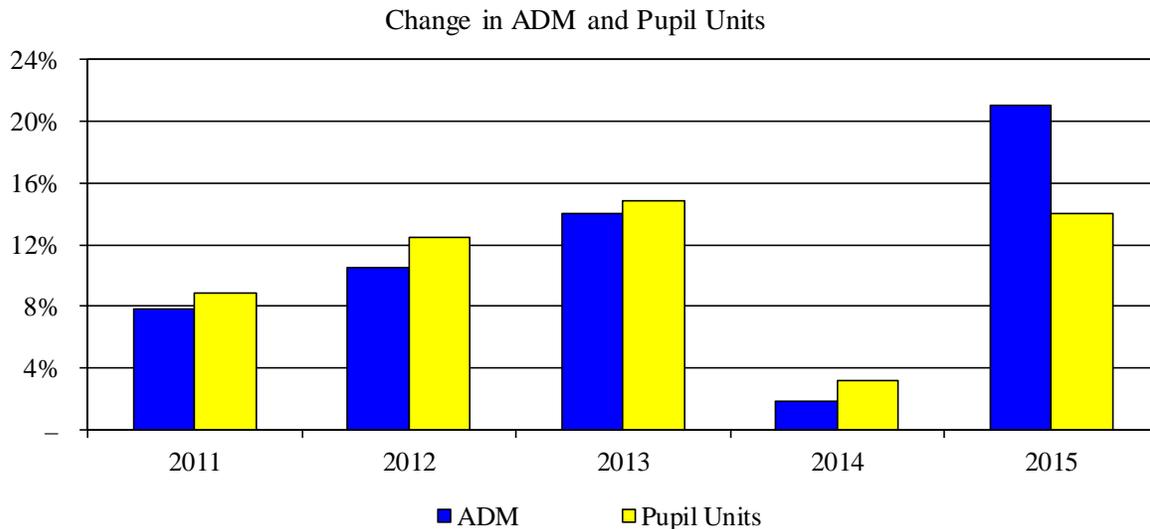
FINANCIAL TRENDS OF YOUR ACADEMY

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph summarizes the ADM served by the Academy over the last five years:



The Academy served an estimated ADM of 191 for 2015, an increase of 33 from the prior year. The following graph shows the rate of ADM change from year to year, and the resulting pupil units:

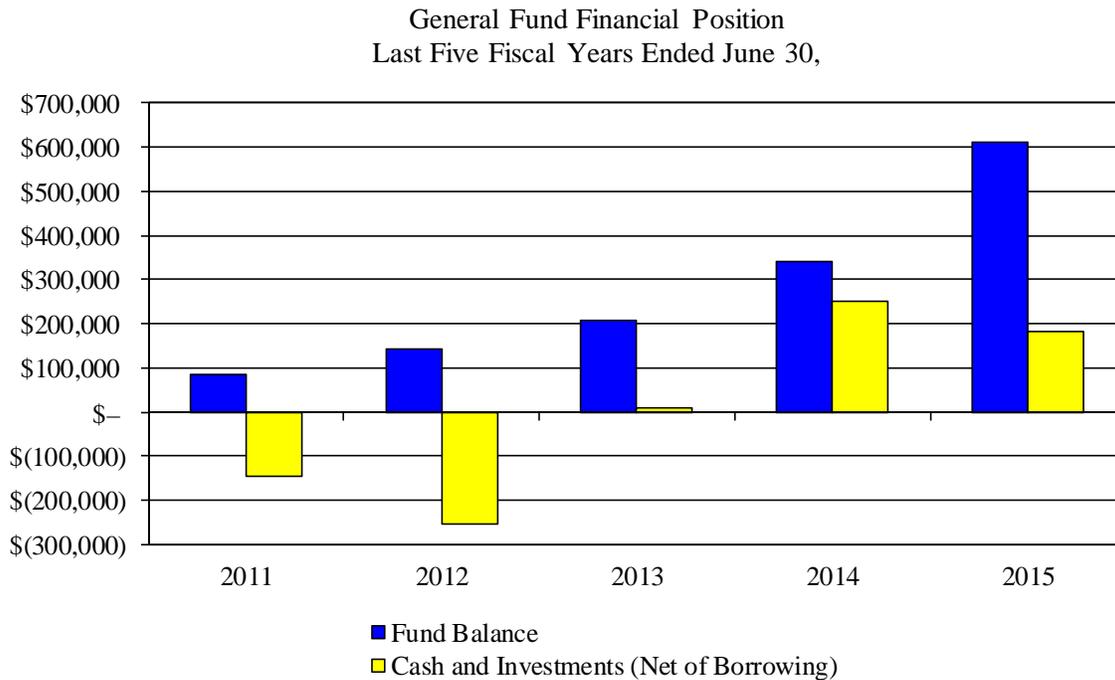


The number of pupil units served by the Academy for 2015 was estimated to be 218, an increase of 27 pupil units from the prior year. The increase in pupil units is significantly smaller than the increase in ADM due to legislative reductions to pupil unit weights in 2015.

ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes and the impact of the prior year final adjustments which affect this year's revenue.

GENERAL FUND OPERATIONS AND FINANCIAL POSITION

The following graph displays the Academy's General Fund financial position over the last five years:

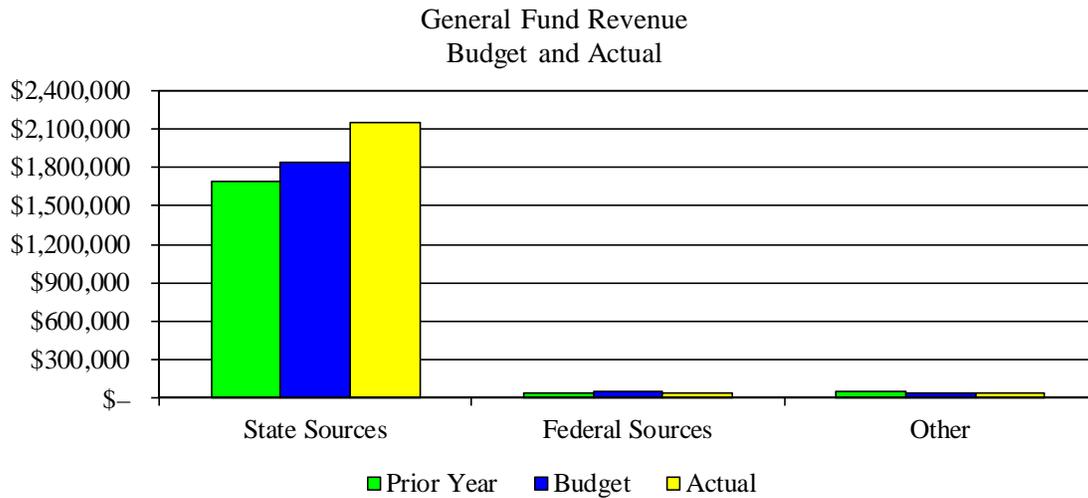


The Academy's General Fund ended 2015 with a total fund balance of \$609,868, an increase of \$268,928 from the prior year, compared to an increase of \$6,784 projected in the final budget. The General Fund cash and investments balance (net of borrowing) at year-end was \$183,078, which represents a decrease of \$67,863 from the prior year. The decrease in the Academy's cash flow was mainly due to spending cash for the expansion and renovation of the Academy's rental space.

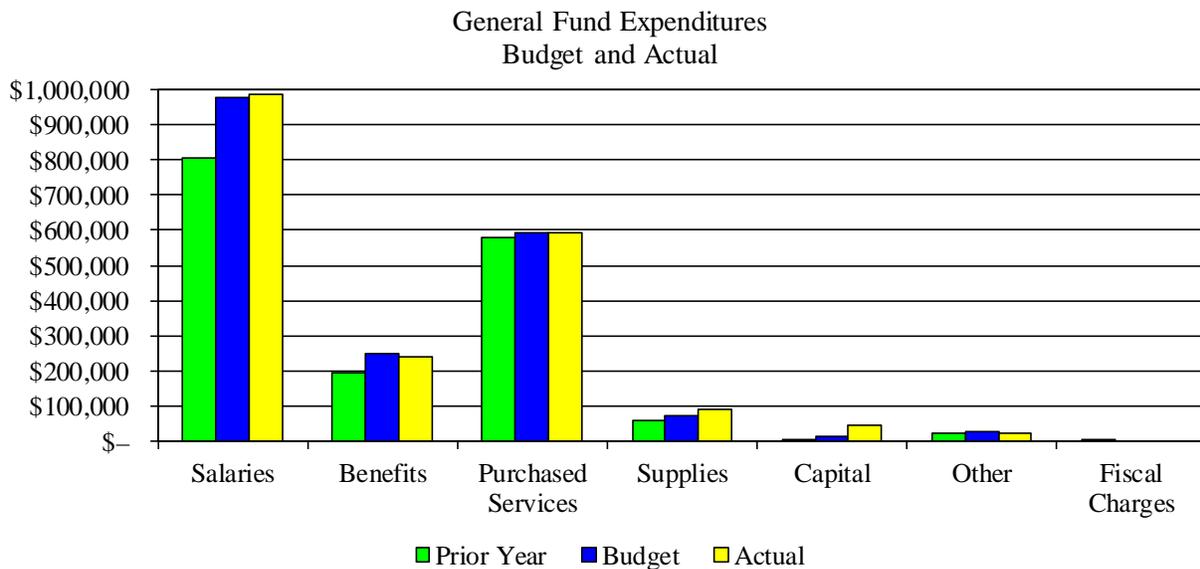
Fund balance as a percentage of expenditures is one key measure of the Academy's financial health. The resources represented by this fund balance are critical to the Academy's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. For the Academy, this ratio was 30.8 percent at the end of 2015, as compared to 20.5 percent at the end of 2014.

GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the Academy's General Fund revenue and expenditures for 2015:



Total General Fund revenues for 2015 were \$2,247,173, an increase of \$450,028 from the prior year, and \$309,161 over budget. State aid revenue was \$461,391 more than the prior year, mainly due to the Academy earning more general education and charter school lease aid due to serving more students, and more special education state aid due to a corresponding increase in special education costs.



Total General Fund expenditures for 2015 were \$1,978,245, an increase of \$315,618 from the prior year. The increase was mainly in salaries and benefits, which were \$225,771 higher than last year due to hiring five new employees to help maintain sufficient staffing for the growing student population.

Expenditures were over budget by \$47,017 in total. Most of this variance was in supplies (\$17,109) and capital (\$27,527), due to the expansion of rental space, related renovation costs, and the purchase of more technology equipment for classroom instruction than was expected.

FOOD SERVICE SPECIAL REVENUE FUND

In the Food Service Special Revenue Fund, revenues exceeded expenditures by \$307 during the year in the Academy's School Milk Program, increasing fund balance to \$987 at year-end.

ENTITY-WIDE FINANCIAL STATEMENTS

The Academy's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the Academy's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two entity-wide financial statements designed to present a clear picture of the Academy as a single, unified entity. These entity-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents the resources the Academy has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how resources can be used. Therefore, the statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized conversion of the Academy's governmental fund balances (as individually discussed earlier) to net position, and separate components of net position for the last two years:

| | June 30, | | Increase (Decrease) |
|--|---------------------|-------------------|------------------------|
| | 2015 | 2014 | |
| Total net position – governmental activities | | | |
| Total fund balances – governmental funds | \$ 610,855 | \$ 341,620 | \$ 269,235 |
| Capital assets | 125,394 | 82,567 | 42,827 |
| Accumulated depreciation | (74,906) | (73,352) | (1,554) |
| PERA and TRA pensions | (917,340) | – | (917,340) |
| Total net position – governmental activities | <u>\$ (255,997)</u> | <u>\$ 350,835</u> | <u>\$ (606,832)</u> |
| Net position | | | |
| Net investment in capital assets | \$ 34,702 | \$ 9,215 | \$ 25,487 |
| Restricted for food service | 987 | 680 | 307 |
| Unrestricted | <u>(291,686)</u> | <u>340,940</u> | <u>(632,626)</u> |
| Total net position | <u>\$ (255,997)</u> | <u>\$ 350,835</u> | <u>\$ (606,832)</u> |

The Academy's total net position at June 30, 2015 was a deficit of (\$255,997), a decrease of \$606,832 from the previous year.

The Academy's net investment in capital assets increased \$25,487 due to various technology purchases during the year and the start of rental space expansion and renovations.

The restricted portion of net position increased \$307 due to the positive operating results of the Academy's Food Service Program.

The unrestricted portion of net position decreased \$632,626 to a year-end balance of (\$291,686). The Academy recorded a change in accounting principle in the current year for reporting the Academy's participation in the Public Employees Retirement Association and Teachers Retirement Association pension plans. This change reduced beginning net position in the entity-wide financial statements by \$949,490.

LEGISLATIVE SUMMARY

After two years with Democratic control of the governor's office and both legislative chambers, the Republicans picked up 11 seats in the House of Representatives (the House) in the 2014 elections, gaining control of that chamber for 2015. Despite the 2015 legislative session beginning with a projected budget excess of \$1.87 billion for the 2016–2017 biennium, the most favorable budget forecast in over a decade, little was accomplished during the session due to partisan disagreement. One of the many areas of contention was the education finance bill, which was passed by the House and Senate late in the regular session without a universal preschool provision demanded by the governor. As promised, the governor vetoed the education finance bill along with several others, forcing a special session. Ultimately, the K–12 education finance bill was passed in a special session adding \$525 million in state funding for K–12 education over the 2016–2017 biennium.

The following is a brief summary of recent legislative changes and issues affecting the future funding of Minnesota school districts and charter schools:

Basic General Education Revenue – The per pupil basic general education formula allowance increased \$529 to \$5,831 for fiscal year (FY) 2015, with simultaneous changes to pupil weights and the general education formula structure reducing the increase to the equivalent of \$105 per pupil state-wide. The 2015 Legislature approved 2 percent increases for each of the two subsequent fiscal years, raising the per pupil allowance to \$5,948 for FY 2016 and \$6,067 for FY 2017.

A number of other changes were made to the general education formula, including:

- The extended time allowance increased from \$5,017 to \$5,117 beginning in FY 2016.
- Charter schools with extended time programs will receive 25 percent of the state average per adjusted pupil unit (about \$19 per adjusted pupil unit [APU]) beginning in FY 2016.
- Funding eligibility for English learner revenue is extended from 6 to 7 years in FY 2017.
- School districts not in a compensatory pilot project are allowed to allocate up to 50 percent of compensatory revenue among building sites based on a local plan beginning in FY 2016.

The following changes were made to elements of the general education tax levy:

- The student achievement levy, reestablished to allow districts to levy up \$20 million state-wide for FY 2016 (taxes payable 2015), is being phased out. There will be no change to the \$20 million limit for FY 2017 (taxes payable 2016). The levy is reduced to \$10 million state-wide for FY 2018 (taxes payable 2017), and eliminated for FY 2019.
- The equalization factor for operating capital was increased from \$14,500 for FY 2016 to \$14,740 for FY 2017, \$17,473 for FY 2018, and \$20,510 for FY 2019 and later years.

Language was also added requiring districts to use the 2 percent general education staff development set-aside for: teacher development and evaluation, principal development and evaluation, professional development, in-service education, and staff development plans. Staff development plans are required to be aligned and integrated with teacher development and evaluation agreements.

Quality Compensation Program (Q Comp) – The 2015 Legislature made the following changes to the Q Comp alternative compensation for teachers program:

- The cap on basic Q Comp aid increases 16.5 percent to \$75,636,000 beginning in FY 2017.
- Cooperatives other than intermediate districts are eligible to participate in Q Comp beginning in FY 2017. The year prior to participating, 70 percent of the teachers employed by the cooperative must agree to adopt a Q Comp system.
- Beginning in FY 2017, the Q Comp aid formula for intermediates and other cooperatives changes to \$3,000 per licensed teacher employed on October 1 of the previous year.

- Alternative teacher pay systems are now allowed to include incentives for teachers to pursue training, advanced certifications, or master's degrees; and for teachers identified as effective or highly effective to work in hard-to-fill positions or hard-to-staff schools.

Compensatory Pilot Grants – Funding for compensatory pilot grants has been extended, with state-wide funding for FY 2016 and later set at the FY 2015 level of \$7,342,500. Recipient schools are required to post plans and accountability measures on their website.

Special Education Funding – State funding for special education is being transitioned to new funding formulas beginning in FY 2016.

For FY 2016, state regular special education aid will be the lesser of: 62 percent of old formula special education expenditures for the prior year; 50 percent of nonfederal special education expenditures for the prior year; or 56 percent of the amount calculated using a new pupil-driven formula based on prior year data.

Beginning in FY 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than flowing through the resident districts. Tuition bills will be reduced by the aid paid directly to these entities.

The formula for special education excess cost aid for FY 2016 will be the greater of: 56 percent of the difference between the district's unreimbursed nonfederal special education costs and 7 percent of the school's general education revenue; or 62 percent of the difference between the school's unreimbursed old formula special education costs and 2.5 percent of the school's general education revenue.

Special Education

Cash flow improved for charter schools with at least 90 percent of students receiving special education by:

- Increasing general education aid to cover the unreimbursed costs of serving students without disabilities.
- Increasing special education aid to cover the unreimbursed costs of serving students with disabilities.
- Paying the full 90 percent of estimated special education aid in the current year (rather than 90 percent of 97.4 percent of the estimated aid entitlement).
- Aid reduction to the resident district for special education tuition is calculated as if the school did not receive the added general and special education aid, and is retained by the state, since the school has its full cost covered by direct aid.

Special Education Funding Formula Clarifications – Beginning in FY 2016, special education aid for a first year charter school is calculated using current year data.

Long-Term Facilities Maintenance Revenue – Beginning in FY 2017, the current deferred maintenance, health and safety, and alternative facilities programs will be rolled into a new long-term facilities maintenance revenue program. Beginning in FY 2017, charter schools will also be eligible for long-term facilities maintenance revenue that will be phased in over a three-year period.

The amount of aid for charter schools will be as follows:

- FY 2017 – \$34 x the APUs
- FY 2018 – \$85 x the APUs
- FY 2019 – \$132 x the APUs

Charter schools may use this revenue for any purpose related to the school.

American Indian Education Aid – The Success for the Future Grant Program is being replaced with a new American Indian Education Aid, effective FY 2016. Districts, charters, and Bureau of Indian Education schools with at least 20 American Indian students are eligible for aid. The aid entitlement will equal the lesser of approved costs or \$20,000, plus \$358 per American Indian student enrolled on October 1 of the previous year in excess of 20. There will be a hold harmless for districts currently receiving Success for the Future grants.

Early Learning Programs – While the Governor’s proposed universal preschool provision did not become law, finding increases of \$92.5 million for several early learning programs were approved for the 2016–2017 biennium, including: \$48.25 million for the Early Learning Scholarship Program; \$30.75 million for School Readiness; \$10 million for Head Start; and \$3.5 million for the “Parent Aware” early childhood rating system. Funding for Early Childhood Family Education linked to the general education formula also increased.

Pre-Kindergarten (Pre-K) – Allows a charter school to provide a fee-based pre-K program. Also allows a charter school that provides a free pre-K program to give enrollment preference to students in its free pre-K program for enrollment in kindergarten the following year. Also allows a charter school with at least 90 percent deaf and hard of hearing students to enroll pre-K students with a disability, if there is no cost impact of doing so.

Financial Reporting Dates – The deadline for districts or charters to make prior year financial data corrections for final payments was moved from December 30 to December 15 following the fiscal year-end.

Mergers – Provides a process for charter school mergers. Fund balances and debts of the schools involved in the merger are transferred to the new combined school at the beginning of the first fiscal year the merger takes effect. For the first year of operation, aid for programs requiring applications equals the sum of the aid of the merging schools. For aids based on prior year data, combined prior year data of the merged schools is used to calculate aid.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 72, *FAIR VALUE MEASUREMENT AND APPLICATION*

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

This statement generally requires investments to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. This statement is effective for financial statements for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB STATEMENT NO. 73, *ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS AND RELATED ASSETS THAT ARE NOT WITHIN THE SCOPE OF GASB STATEMENT NO. 68, AND AMENDMENTS TO CERTAIN PROVISIONS OF GASB STATEMENT NOS. 67 AND 68*

The objective of this statement is to improve the usefulness of information about pensions included in financial statements of state and local governments for making decisions and assessing accountability. This statement also clarifies the application of certain provisions of GASB Statement Nos. 67 and 68 regarding 10-year schedules of required supplementary information and other recognition issues pertaining to employers and nonemployer contributing entities. These changes will improve financial reporting by establishing a single framework for the presentation of information about pensions, enhancing comparability for similar information reported by employers and nonemployer contributing entities.

The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions not within the scope of GASB Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of GASB Statement No. 67 or for pensions that are within the scope of GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB STATEMENT NO. 74, *FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS*

The objective of this statement is to improve the usefulness of information about post-employment benefits other than pensions (other post-employment benefits [OPEB]). This statement replaces GASB Statement Nos. 43 and 57. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement Nos. 25, 43, and 50. GASB 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 nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

This statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans administered through trusts meeting 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.

This statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB STATEMENT NO. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (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 replaces the requirements of GASB Statement Nos. 45 and 57. GASB Statement No. 74 establishes new accounting and financial reporting requirements for OPEB plans.

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. This statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

Similar to changes implemented for pensions, this statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

GASB STATEMENT NO. 77, TAX ABATEMENT DISCLOSURES

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. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this statement defines a 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.

The requirements of this statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and (2) the impact those abatements have on a government's financial position and economic condition. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

CHANGES TO FEDERAL GRANT AUDIT REQUIREMENTS

In December 2013, the OMB issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Audits*, which supersedes all or parts of eight OMB circulars; consolidating federal cost principles, administrative principles, and audit requirements in one document. This new Uniform Guidance includes a number of significant changes to both administrative requirements and the federal Single Audit process.

Significant changes in administrative requirements include: changes to time and effort documentation, updating internal control framework to be consistent with changes to the Committee of Sponsoring Organizations) of the Treadway Commission (COSO) internal control framework, creating written policies and procedures to implement requirements of cash management and allowability of costs, implementing new procurement standards, and additional compliance and control requirements for districts making subawards. Auditees are required to implement the administrative requirements of the new Uniform Guidance for new awards or funding increments on or after December 26, 2014.

Significant changes to the federal Single Audit process include: an increase in dollar threshold for requiring a Single Audit from \$500,000 to \$750,000; changes to the thresholds and process used for determining major programs; reductions in the percentages of expenditures required to be covered by a Single Audit from 50 percent to 40 percent for high risk auditees and from 25 percent to 20 percent for low risk auditees; revised criteria for determining low-risk auditees; and an increase in the threshold for reporting questioned costs from \$10,000 to \$25,000. The revised audit requirements will be effective for audits of fiscal years beginning on or after December 26, 2014.

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