Management Report

for

Cyber Village Academy
St. Paul, Minnesota

June 30, 2018

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the Boards and Management of
Cyber Village Academy and Virtual Properties
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, 2018. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your Academy
- Legislative Summary
- Future 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
October 1, 2018

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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 Academy's Board, the Board of the Academy's affiliated building company Virtual Properties (the Building Company), 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, each major fund, and the aggregate remaining fund information of the Academy as of and for the year ended June 30, 2018, 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, 2018:

- We have issued an unmodified opinion on the Academy's annual financial statements.
- We reported no deficiencies in the Academy's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards.*
- We reported no findings based on our testing of the Academy's compliance with Minnesota laws and regulations.

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. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2018. However, the Academy implemented the following governmental accounting standard during the fiscal year ending June 30, 2018:

- Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017,* which addressed certain issues identified during the implementation of certain GASB standards.

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 clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that 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, a disagreement with management is 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 October 1, 2018.

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 the management's discussion and analysis and the pension-related required supplementary information (RSI) 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 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, 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 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 2019 fiscal year. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the “roll-in” of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual schools. The $529 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that resulted in an increase equivalent to approximately $105, or 2.0 percent, state-wide.

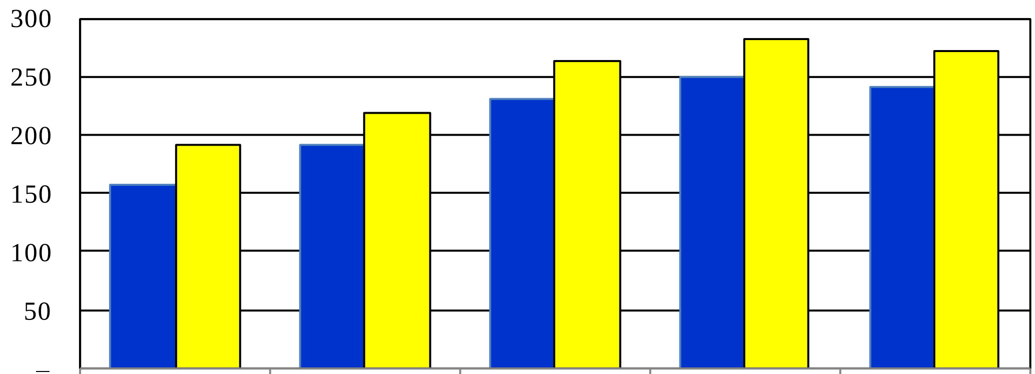
Fiscal Year Ended June 30,	Formula Allowance Amount	Formula Allowance Percent Increase
2009	$ 5,124	1.0 %
2010	$ 5,124	– %
2011	$ 5,124	– %
2012	$ 5,174	1.0 %
2013	$ 5,224	1.0 %
2014	$ 5,302	1.5 %
2015	$ 5,831	2.0 %
2016	$ 5,948	2.0 %
2017	$ 6,067	2.0 %
2018	$ 6,188	2.0 %
2019	$ 6,312	2.0 %

FINANCIAL TRENDS OF YOUR ACADEMY

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph summarizes the ADM and pupil units served by the Academy the last five years:

Students (ADM and Pupil Units)

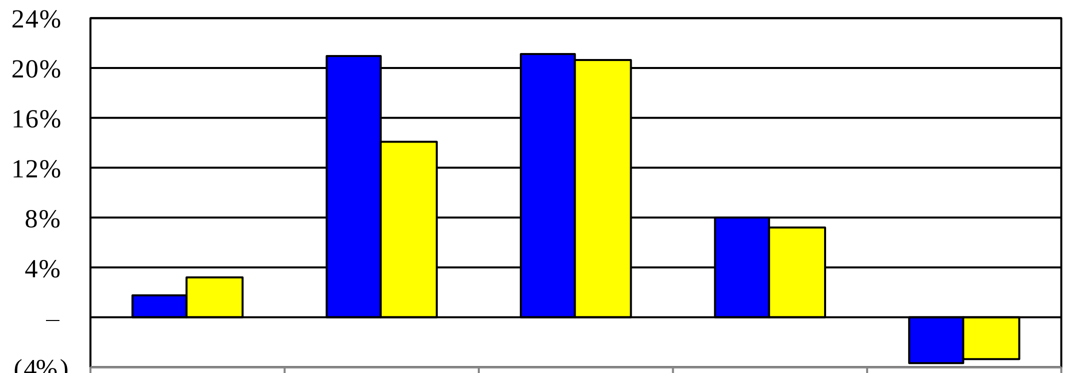


	2014	2015	2016	2017	2018
ADM	158	191	231	250	240
Pupil Units	191	218	263	282	273

The Academy's ADM served decreased about 10 from the prior year.

The following graph shows the annual rate of change in ADM served and the resulting pupil units:

Change in ADM and Pupil Units



	2014	2015	2016	2017	2018
ADM	1.8%	21.1%	21.1%	8.0%	(3.7%)
Pupil Units	3.1%	14.1%	20.6%	7.2%	(3.3%)

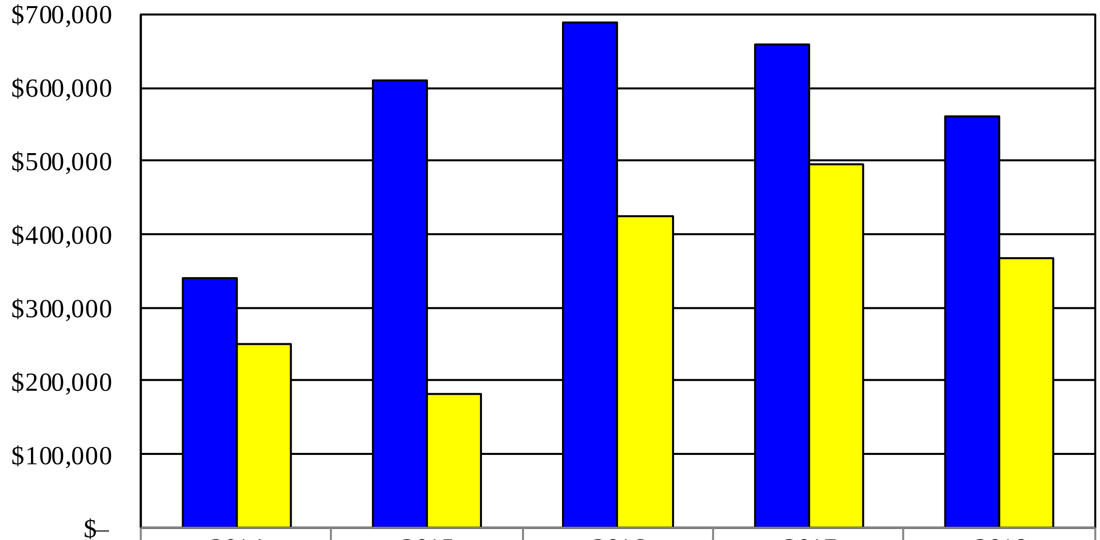
The Academy served approximately 273 pupil units for 2018, a decrease of nine from the previous year. This represented the first decline in the Academy's student population since 2009.

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:

General Fund Financial Position
Last Five Fiscal Years Ended June 30,



	2014	2015	2016	2017	2018
Fund Bal.	$340,940	$609,868	$687,718	$658,218	$561,371
Cash and Inv.	$250,941	$183,078	$423,308	$496,007	$367,440

The Academy's General Fund total fund balance decreased $96,847 from the prior year, compared to a decrease of $38,180 projected in the final budget. Of the $561,371 fund balance at year-end, $106,186 was classified as nonspendable for prepaid items, another $9,515 was classified as assigned to finance the Academy's fiscal 2019 adopted budget, and the remaining $445,670 was unassigned.

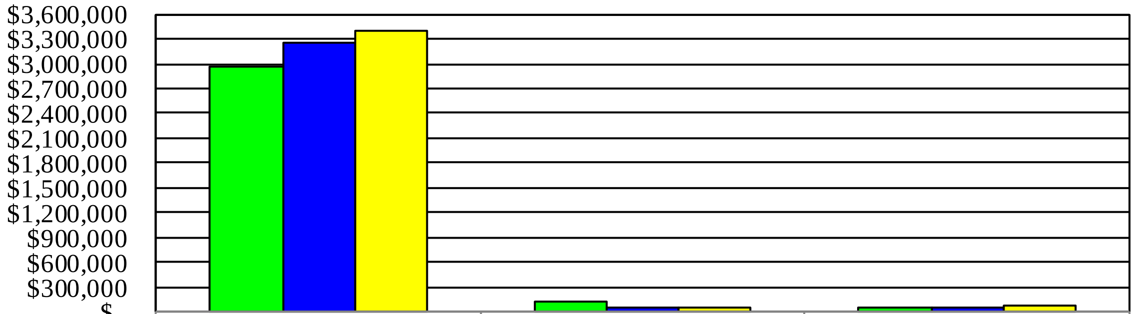
The General Fund cash and investments balance (adjusted for interfund borrowing) at year-end was $367,440, down $128,567 from the previous year-end.

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 15.6 percent at the end of 2018, as compared to 20.0 percent at the end of 2017. The unassigned portion of the Academy's fund balance at year-end was equal to 12.4 percent of fiscal 2018 expenditures.

GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the Academy's General Fund revenue and expenditures for 2018:

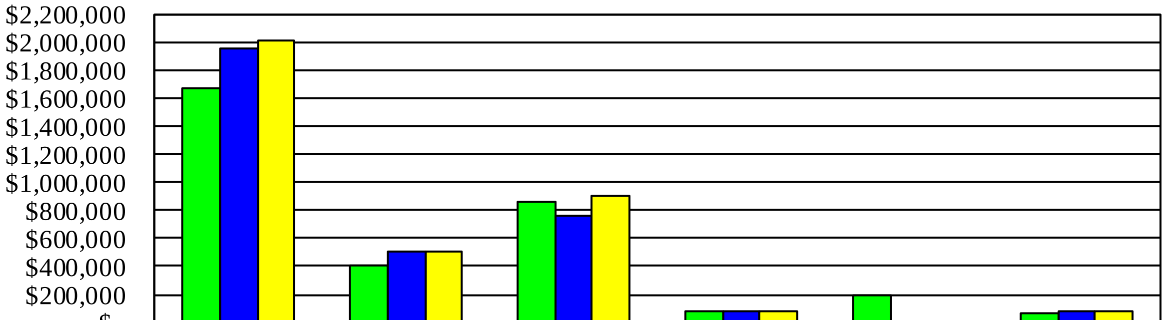
General Fund Revenue
Budget and Actual



	State Sources	Federal Sources	Other
Prior Year	$2,957,168	$135,176	$41,901
Budget	$3,261,224	$55,956	$41,200
Actual	$3,397,515	$44,327	$64,884

General Fund revenues increased $372,481 from the prior year, and were $148,346 over budget. State revenue sources were $440,347 more than the prior year and $136,291 over budget, as the Academy earned more state special education state aid than last year due to increased costs. Federal revenues were $90,849 less than last year and $11,629 under budget, as federal special education revenue declined due to the Academy paying a special education director's salary with federal funds the previous year.

General Fund Expenditures
Budget and Actual



	Salaries	Benefits	Purchased Services	Supplies	Capital	Other
Prior Year	$1,676,935	$413,164	$864,419	$81,199	$197,079	$63,395
Budget	$1,953,701	$512,833	$756,320	$72,679	$12,000	$73,127
Actual	$2,017,415	$502,194	$908,127	$73,924	$6,353	$82,883

General Fund expenditures increased $294,705 (8.9 percent) from the prior year, and were $210,236 over budget. The increase was mainly in salaries and benefits (up $429,510), as additional staffing was needed to meet the educational needs of the Academy's students, especially in the special education program area. Purchased services were $151,807 over budget, mainly in special education and transportation. Capital expenditures were $190,726 lower than last year, due to the Academy purchasing two school buses in fiscal 2017 that were partially financed with a $150,000 capital lease.

FOOD SERVICE SPECIAL REVENUE FUND

In the Food Service Special Revenue Fund, expenditures exceeded revenues by $12,677 during the year. A transfer of $12,677 was made from the General Fund to eliminate this operating deficit.

BUILDING COMPANY SPECIAL REVENUE FUND

The Building Company Special Revenue Fund was established in the prior year to account for the activity of Virtual Properties, the Academy's affiliated building company. There was no financial activity in this fund in fiscal 2018, leaving the fund balance deficit of $2,100 unchanged from the prior year.

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, 2018	June 30, 2017	Increase (Decrease)
Total net position – governmental activities			
Total fund balances – governmental funds	$ 559,271	$ 656,118	$ (96,847)
Capital assets, net of depreciation	216,718	264,769	(48,051)
Capital lease	(95,857)	(124,535)	28,678
PERA and TRA pensions	(2,481,643)	(1,604,807)	(876,836)
Total net position – governmental activities	$ (1,801,511)	$ (808,455)	$ (993,056)
Net position			
Net investment in capital assets	$ 120,861	$ 140,234	$ (19,373)
Unrestricted	(1,922,372)	(948,689)	(973,683)
Total net position	$ (1,801,511)	$ (808,455)	$ (993,056)

The Academy's total net position at June 30, 2018 was a deficit of ($1,801,511), a decrease of $993,056 from the previous year.

The Academy's net investment in capital assets decreased $19,373, primarily due to increased depreciation from the buses placed in service last year.

The unrestricted portion of net position decreased $973,683, mainly due to increases in the net pension liabilities reported on the Academy's entity-wide financial statements related to the state-wide Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans.

LEGISLATIVE SUMMARY

The 2018 legislative session, falling in the second half of the state's fiscal biennium, was a short session in which only two major finance-related bills were passed, an omnibus bonding bill and an omnibus pensions bill. The following is a brief summary of specific legislative changes from the 2018 session or previous legislative sessions impacting Minnesota charter schools in future years.

Basic General Education Revenue – The Legislature approved annual increases of 2 percent to the basic general education formula allowance for the 2018–2019 biennium. The per pupil allowance will increase $124 to $6,312 for fiscal year (FY) 2019.

Compensatory Revenue – The $5 million previously allocated for compensatory pilot grants was permanently added to the allocation for regular compensatory revenue beginning in FY 2018. The portion of compensatory revenue required to be used for extended time activities will increase from 1.7 percent of total compensatory revenue for FY 2018 to 3.5 percent in FY 2019, and 3.5 percent plus the percentage change in the basic formula for FY 2020 and beyond.

Early Learning – The Legislature made a number of changes to early learning programs, including appropriating funding of $71.75 million for the 2018–2019 biennium. Other changes include:

- The creation of a new School Readiness Plus (SR+) program for FY 2018 and FY 2019 only, with the following student eligibility requirements:
    - A child who is four years of age as of September 1, and who demonstrates one or more risk factors is eligible to participate in the program free of charge,
    - A child who is four years of age as of September 1, and who does not demonstrate any risk factors is eligible to participate on a fee-for-service basis, and
    - A sliding fee schedule must be adopted for students not demonstrating risk factors, but the fee must be waived for students unable to pay.

- Changing the Voluntary Pre-Kindergarten (VPK) cap from a limit on the total state aid entitlement to a limit on the number of participants, as follows:
    - A combined cap of 7,160 participants for VPK and SR+ for FY 2019, and
    - A cap of 3,160 participants for VPK for FY 2020 and later (SR+ program sunsets).

- All applications submitted in January to renew an existing VPK program will be funded first (3,160 slots). Applications for expanded VPK programs, and new VPK or SR+ programs will be ranked and approved based on various criteria. The number of new participants allowed in each new or expanded program will depend on how the programs are ranked.

Long-Term Facilities Maintenance Revenue – Long-term facilities maintenance revenue will increase from $292 to $380 per adjusted pupil unit (APU); multiplied by the lessor of one, or the ratio of the district's average building age to 35 years for FY 2019 and thereafter.

Competitive Bidding Threshold – Effective for contracts awarded on or after August 1, 2018, the dollar threshold at which Minnesota Statutes require the use of a sealed bidding process was raised from $100,000 to $175,000. This extends the dollar range for which contracts may be awarded using direct negotiation (obtaining two quotations) contracts between $25,000 and $175,000. By reference, this change also increased the dollar threshold at which public contractors' performance and payment bonds are required for contracts over $175,000.

Pension Benefit Reforms – The 2018 pension bill included a number of reforms to the various defined benefit pension plans across the state, including the plans administered by the Teachers Retirement Association (TRA), St. Paul Teachers Retirement Fund Association (SPTRFA), and the Public Employees Retirement Association (PERA). The reforms include:

- Elimination of augmentation (annual percentage increases to pension benefits accrued by individuals leaving public service prior to retirement). For the TRA plan, augmentation is eliminated for all members after December 31, 2017, but does not eliminate augmentation previously credited to member accounts.

- Early retirement subsidies (augmentation an early retiree would have received had they waited until the normal retirement age to begin receiving the pension) are phased out.

- Post-retirement cost of living adjustments (COLAs) are reduced. For the TRA plan, the COLA was reduced from 2 percent to 1 percent for five years, with the rate increasing by 0.1 percent annually thereafter, to a maximum of 1.5 percent. For the SPTRFA plan, there will be no COLA increase for two years, and a 1 percent annual COLA thereafter. For PERA plans, the COLA will be equal to 50 percent of the annual increase for social security, but not less than 0.5 percent, and not more than 1.5 percent.

- For early retirees that retire on or after January 1, 2024, COLAs are deferred until the retiree reaches the normal retirement age.

- The rate of interest paid on refunds of employee contributions to former public employees was reduced from an annual rate of 4 percent to 3 percent.

- The actuarial assumption for investment rate of return was reduced to 7.5 percent for all plans.

- Employer contribution rates were increased for the TRA plan (a total increase of 1.25 percent phased in over a 6-year period beginning in FY 2019) and the SPTRFA plan (a total increase of 2.5 percent phased in over a 6-year period beginning in FY 2019). Employee contribution rates were also increased by 0.25 percent beginning in FY 2024 for the TRA plan, and beginning in FY 2023 for the SPTRFA plan. The pension adjustment component of the general education aid formula was increased by an amount equal to the product of the salaries paid to members of these two plans times the school's pension adjustment rate for the fiscal year to help offset the cost of the employer contribution increases.

FUTURE ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 83, *CERTAIN ASSET RETIREMENT OBLIGATIONS*

At times, state and local governments are required to take specific actions to retire certain tangible capital assets, such as the decommissioning of nuclear reactors, removal and disposal of wind turbines in wind farms, dismantling and removal of sewage treatment plants, and removal and disposal of x-ray machines. Obligations to retire certain tangible capital assets also arise from contracts or court judgments. Accounting and financial reporting standards exist for costs of the closure and post-closure care of municipal solid waste landfills, but those standards do not address retirement obligations associated with other types of tangible capital assets.

This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB STATEMENT NO. 84, *FIDUCIARY ACTIVITIES*

This statement is intended to enhance consistency and comparability of fiduciary activity reporting by state and local governments. It is also meant to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries.

This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB STATEMENT NO. 87, *LEASES*

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

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

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

To reduce the cost of implementation, this statement includes an exception for short-term leases, defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB STATEMENT NO. 88, *CERTAIN DISCLOSURES RELATED TO DEBT, INCLUDING DIRECT BORROWINGS AND DIRECT PLACEMENTS*

The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

The requirements of this statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

UNIFORM GUIDANCE, MICRO-PURCHASE THRESHOLD

Under the Uniform Guidance for federal programs, a micro-purchase is one for goods or services that, due to its relatively low value, does not require the government to abide by many of its ordinary competitive procedures, including small business set-asides. Because the contract is theoretically, such a low amount, the contracting officer can pick virtually whatever company and product he or she wants to satisfy the procurement, so long as the price is reasonable. The standard micro-purchase threshold has been amended to increase the threshold to $10,000, effective June 20, 2018. Entities are not required to increase the micro-purchase and simplified acquisition thresholds but, if they wish to do so, they must update their procurement policies and procedures to reflect the change in thresholds. They cannot retroactively make these changes effective prior to June 20, 2018.