



## MEMORANDUM

TO: Board of Directors

FROM: William A. Greenleaf, Director of Business Services *WAG*

DATE: February 20, 2017

SUBJECT: Auditors' Management Letter

Each year the Auditors submit a management letter with observations and recommendations for improving financial, administrative and operating matters. The District responds to these recommendations by taking steps to achieve the desired improvement.

### FY 2016 AUDIT RECOMMENDATIONS

#### Prospective Accounting Pronouncements

##### *GASB Statement No. 72: Fair Value Measurement and Application*

Observation – GASB 72 was issued in February 2015 and addresses accounting and financial reporting and disclosure issues related to fair value measurements by requiring a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This pronouncement will add and revise disclosure requirements for the District around its assets and liabilities that are valued at fair value and is effective for fiscal year 2016.

***This pronouncement did affect the District.***

##### *GASB Statement No. 76: The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

Observation – GASB 76 was issued in June 2015 and identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The guidance (1) raises the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizes the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requires the

consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. This is effective for the District in fiscal year 2016.

***This pronouncement did affect the District.***

### **Recommendation**

Review all GASB Statements listed above and their implications to determine the potential impact on the District's financial statements.

### **Response at Receipt of Comment**

Management and Staff concur. District Staff will continue to evaluate the impact of these pronouncements, especially those that we anticipate having an effect on the financial statements of the District prior to the FY 2016 audit.

### **Response Status at Beginning of FY 2016 Audit**

District Staff has evaluated the impact of all of the necessary pronouncements and made the necessary changes to the FY 2016 financial statements.

## **FY 2017 AUDIT RECOMMENDATIONS**

*GASB Statement No. 73: Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

Observation – GASB 73 was issued in June 2015 and extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. It is effective in fiscal 2017.

***This pronouncement will not affect the District.***

*GASB Statement No. 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

Observation – GASB 74 was issued in June 2015 and establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. It is effective in fiscal 2017.

***This pronouncement will not affect the District.***



*GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Observation – GASB 75 was issued in June 2015 and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It is effective in fiscal 2018.

***This pronouncement will not affect the District.***

*GASB Statement No. 77: Tax Abatement Disclosures*

Observation – GASB 77 was issued in August 2015 and 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 governments tax revenues. It is effective in fiscal 2017.

***This pronouncement will not affect the District.***


*GASB Statement No. 78: Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

Observation – GASB 78 was issued in December 2015 and amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. It is effective in fiscal 2017.

***This pronouncement will not affect the District.***

*GASB Statement No. 79: Certain External Investment Pools and Pool Participants*

Observation – GASB 79 was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address:

- (1) how the external investment pool transacts with participants;
  - (2) requirements for portfolio maturity, quality, diversification, and liquidity; and
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(3) calculation and requirements of a shadow price.

Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes.

The requirements of this Statement are effective for the District in fiscal year 2016, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective in fiscal year 2017 for the District.

***This pronouncement will affect the District.***

*GASB Statement No. 80: Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*

Observation – GASB 80 was issued in January 2016 and amends the scope and applicability of Statement 14 by removing the blending requirements for financial statement presentation of the component units of all state and local governments. However, there is still a criterion for blending of a component unit if it is a not-for-profit corporation in which the primary government is the sole corporate member. This statement establishes increased comparability across government entities. It is effective in fiscal 2017.

***This pronouncement may affect the District.***

*GASB Statement No. 81: Irrevocable Split-Interest Agreements*

Observation – GASB 81 was issued in March 2016 and requires a recognition of assets, liabilities, and deferred inflows of resources at the inception of the irrevocable split-interest agreement (an agreement where a donor gives to two or more beneficiaries). The new pronouncement also requires governments to recognize assets that are administered by third parties if the government controls the present service capacity (when resources become applicable to the reporting period). It is effective in fiscal 2018.

***This pronouncement will not affect the District.***

*GASB Statement No. 82: Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*

Observation – GASB 82 was issued in March 2016 and amends statements 67, 68, and 73 to instead require the presentation of covered payroll (payroll on which contributions to a pension plan are based) and ratios that use the measure by removing deviations and clarifying that payments by an employer to satisfy contribution requirements should be classified as plan member contributions (for statement 67) and employee contributions (for statement 68). Furthermore, those expenses by the employer for those amounts are recognized in the period for which the contribution is assessed and are classified as other compensations outside of pensions (i.e. fringe benefits, etc.). There are several start dates depending on the circumstance surrounding an entity. It is effective in fiscal 2017.

***This pronouncement will not affect the District.***



**GASB Statement No. 83: *Certain Asset Retirement Obligations***

Observation – GASB 83 was issued in November 2016 and addresses the accounting and reporting of a legally enforceable liability associated with the retirement of a tangible capital asset (that is, the tangible capital asset is permanently removed from service). Such retirement encompasses its sale, abandonment, recycling, or disposal in some other manner. Examples include 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. This statement is effective for fiscal 2019.

***This pronouncement may affect the District at some point in the future.***

**GASB Statement 84: *Fiduciary Activities***

Observation – GASB 84 was issued in January 2017 and establishes criteria for reporting fiduciary activity in one of four types of fiduciary funds: (1) pension and other employee benefit trust funds; (2) investment trust funds; (3) private purpose trust funds; and (4) custodial funds. This statement further clarifies accounting and reporting of fiduciary component units and whether and how business type activities should report fiduciary activities.

***This pronouncement will not affect the District***

**Recommendation**

Review all GASB Statements listed above and their implications to determine the potential impact on the District's financial statements.

**District Response**

Management and Staff concur. District Staff will continue to evaluate the impact of these pronouncements, especially those that we anticipate having an effect on the financial statements of the District prior to the FY 2017 audit.

