West Central Education District
Sauk Centre, Minnesota

Communications Letter

June 30, 2016

bergan KDV
CPAS | ADVISORS

West Central Education District
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Report on Matters Identified as a Result of the Audit of the Financial Statements

To the Governing Board and Management
West Central Education District
Sauk Centre, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and General Fund of West Central Education District, Sauk Centre, Minnesota, as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements, on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected, on a timely basis. The material weaknesses identified are stated within this letter.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 31, 2016 on such statements.

This communication is intended solely for the information and use of management, the Governing Board, and others within the District and state oversight agencies is not intended to be, and should not be, used by anyone other than these specified parties.

BerganKDV, Ltd.

St. Cloud, Minnesota
October 31, 2016

West Central Education District
Material Weaknesses

LACK OF SEGREGATION OF ACCOUNTING DUTIES

The District had a lack of segregation of accounting duties in cash disbursements, cash receipts, and payroll processes due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Although this meets the definition of a "material weakness", it may not be practical to correct since the costs of obtaining desirable segregation of accounting duties may exceed benefits that could be derived.

Cash Disbursement Process

- The District Secretary orders all purchases, receives purchases, and matches purchase orders to invoices.
- The District Bookkeeper enters invoices into the finance system, processes, prints and mails checks, and prepares the bank reconciliation.

Cash Receipt Process

- The District Secretary can receipt cash and prepare deposit slips.
- The District Bookkeeper enters receipts into the finance system, with no documentation of reconciling the deposit, and prepares the bank reconciliation.

Payroll Process

- The Payroll Clerk reviews and inputs timesheets and also calculates and generates payroll. The Payroll Clerk prints and mails checks as well.
- It was also noted there was no review of the payroll after data entry.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation but due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

We recommend management, along with the Governing Board, remain aware of this situation, and continually monitor the accounting system including changes that occur.

West Central Education District
Material Weaknesses

PREPARATION OF FINANCIAL STATEMENTS

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a district of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, on a timely basis. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and related note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

West Central Education District
Required Communication

We have audited the financial statements of the governmental activities and the General Fund of the District as of and for the year ended June 30, 2016. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplement(s) the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

West Central Education District
Required Communication

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the District 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 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:

> Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.
>
> Special Education Aid – This Aid is dependent on average daily membership (ADM) values which are not finalized until after the reporting deadline. In addition, this Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.
>
> Net Other Post Employment Benefits (OPEB) Obligation – This asset is based on an actuarial study using estimates of future obligations of the District for post employment benefits.
>
> Net Pension Liability, Deferred Outflows of Resources Relating to Pension Activity, and Deferred Inflows of Resources relating to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

We evaluated the key factors and assumptions used to develop the accounting estimates 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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatement of the financial statements. Management has determined its effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- State aid receivable and revenue were understated.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the 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 requested certain representations from management that are included in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER 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 District'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.

West Central Education District
Required Communication

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 District'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 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.

With respect to the supplementary information accompanying the financial statements, 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 other information accompanying the financial statements, but are 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.

West Central Education District
Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours.

GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

Year Ended June 30,	Other Local and County Sources		State Sources		Federal Sources		Total
2012	$ 1,045,332	36.9%	$ 718,025	25.4%	$ 1,067,132	37.7%	$ 2,830,489
2013	956,853	40.1%	421,210	17.7%	1,007,384	42.2%	2,385,447
2014	1,343,383	44.6%	741,926	24.6%	927,777	30.8%	3,013,086
2015	1,334,638	43.6%	667,384	21.8%	1,060,912	34.6%	3,062,934
2016	1,547,539	41.3%	832,093	22.2%	1,364,060	36.5%	3,743,692

Total revenues in the General Fund increased for the third time over the past five years. Other local and county revenues represented 41.3% of total revenue, which is consistent with the other years presented. Other local and county revenues, which consists primarily of revenues collected from member districts, increased $212,901 due to more students attending the Area Learning Center and billing back for the increased rates in the salary schedule. Revenues from state sources increased $164,709 due to changes in student needs and changes in reporting with the state. Revenue from federal sources increased $303,148 as a result of changes in student needs and changes in salary structure.

GENERAL FUND OPERATIONS

The following table presents five years of comparative operating results for the District's General Fund:

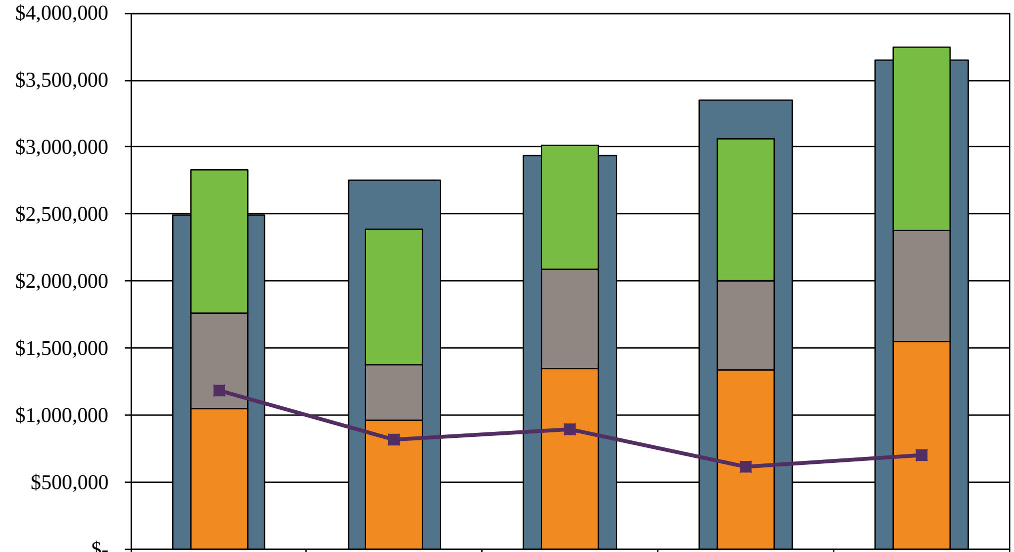
For the Years Ended June 30,	2012	2013	2014	2015	2016
Revenues	$ 2,830,489	$ 2,385,447	$ 3,013,086	$ 3,062,934	$ 3,743,692
Expenditures	2,498,525	2,752,637	2,936,918	3,346,958	3,649,863
Excess of revenues over (under) expenditures	331,964	(367,190)	76,168	(284,024)	93,829
Fund balance, July 1	853,023	1,184,987	817,797	893,965	609,941
Fund balance, June 30	**$ 1,184,987**	**$ 817,797**	**$ 893,965**	**$ 609,941**	**$ 703,770**

Overall, General Fund revenues increased 22.2% from the prior year due to an increase in all revenues sources as noted on the previous page. General Fund expenditures increased $302,905, or 9.1%, from the prior year. Expenditures increased in several areas in 2016, with the largest increase in special education salary expenditures, which accounted for $440,041 of the total increase in expenditures. This increase was due primarily to the District implementing a new salary schedule that blends the four member district's salary structure. This also led to an increase in benefits by $126,823.

These increases were offset by a decrease in special education purchased services, which decreased $267,950. The District reimbursed Independent School District No. 743 for its share of remodeling costs in 2015.

GENERAL FUND OPERATIONS (CONTINUED)

Financial Position



	2012	2013	2014	2015	2016
Total Expenditures	$2,498,525	$2,752,637	$2,936,918	$3,346,958	$3,649,863
Federal Revenue	1,067,132	1,007,384	927,777	1,060,912	1,364,060
State Aid Revenue	718,025	421,210	741,926	667,384	832,093
Member District and Other Local Revenue	1,045,332	956,853	1,343,383	1,334,638	1,547,539
Fund Balance	1,184,987	817,797	893,965	609,941	703,770

The above graph depicts the financial position of the District over the past five years. As shown above, expenditures has increased steadily in each of the five years presented. Federal revenues stayed relatively consistent from 2012 through 2015 with a slight drop in revenues in 2014. In 2016, revenues increased due to the increase in federal expenditures. State aid revenues have fluctuated over the five years presented, increasing to its highest point in 2016. Revenues from member districts have increased as total expenditures have increased.

The District's fund balance has decreased $481,217 from 2012, the highest point in the five years presented.

West Central Education District
Financial Analysis

GENERAL FUND BUDGET TO ACTUAL

	Budgeted Amounts			Variance With
	Original	Final	Actual Amounts	Final Budget - Over (under)
Revenues				
Other local and county revenues	$ 1,330,694	$ 1,477,771	$ 1,547,539	$ 69,768
Revenue from state sources	842,633	700,000	832,093	132,093
Revenue from federal sources	1,383,001	1,358,926	1,364,060	5,134
Total revenues	3,556,328	3,536,697	3,743,692	206,995
Expenditures				
Current				
Administration	31,000	27,872	27,872	-
District support services	37,100	39,213	40,176	963
Elementary and secondary regular instruction	310,177	317,904	328,869	10,965
Special education instruction	3,192,522	3,105,050	3,215,048	109,998
Instructional support services	-	6,000	6,000	-
Pupil support services	2,300	-	1,900	1,900
Fiscal and other fixed cost programs	4,610	6,909	6,909	-
Capital outlay				
Special education instruction	-	23,089	23,089	-
Total expenditures	3,577,709	3,526,037	3,649,863	123,826
Net change in fund balances	$ (21,381)	$ 10,660	93,829	$ 83,169

In 2016, the District's total revenues were $206,995, or 5.9%, over budget. Revenues from state sources represented the largest variance, $132,093 over budget. This variance was due to special education revenues coming in higher than anticipated and the District budgeting conservatively.

The District's expenditures were over budget by $123,826 or 3.5%. Special education had the largest variance, coming in $109,998 over budget. This was due to the District not budgeting for the blended salary schedule, which increased salaries and benefits.

West Central Education District
Legislative Summary

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

Total appropriations from the state general fund for E-12 education for the 2016-2017 biennium are $17.23 billion. The formula allowance for 2016 General Education Aid was increased $117 (2%) to $5,948. For 2017, the formula allowance is set at $6,067, which is also an increase of 2%.

Beginning in 2016, the extended time revenue allowance increases to $5,117, a $100 increase.

ENGLISH LEARNER REVENUE

The funding eligibility time period has been extended from six years to seven years beginning in 2017.

COMPENSATORY REVENUE

Districts not in a compensatory pilot project are allowed to reallocate up to 50% of compensatory revenue among buildings based on a local plan beginning in 2016. The compensatory pilot grants have been extended for 2016 and later.

STUDENT ACHIEVEMENT LEVY

The Student Achievement Levy is reduced from $20 million to $10 million for 2018 and eliminated for 2019.

OPERATING CAPITAL LEVY

The operating capital levy equalizing factor has been increased from $14,500 for 2016 to $14,740 for 2017, $17,473 for 2018, and $20,510 for 2019.

LEARNING AND DEVELOPMENT

Districts are no longer required to annually report on uses of learning and development revenue.

Q COMP

The basic Q Comp aid cap was increased to $88,118,000 beginning for 2017. This cap was set at $75,636,000 previously. Eligibility was expanded to include cooperative units other than intermediate districts beginning in 2017.

West Central Education District
Legislative Summary

ALTERNATIVE TEACHER PAY

New language has been introduced allowing the alternative teacher pay system to include a hiring bonus or other added compensation for teachers identified as effective or highly effective who work in a hard to fill position or hard to staff school. There are additional incentives for teachers who earn a Master's degree or other advanced certification in their field, pursue training or education in shortage areas identified by their district, or help fund a "grow your own" new teacher initiative.

STAFF DEVELOPMENT

Districts are required to use the 2% staff development set-aside for teacher development and evaluation, principal development and evaluation, professional development, in-service education and, to the extent funds remain, for staff development plans. Staff development plans must be aligned with teacher development and evaluation agreement.

AMERICAN INDIAN EDUCATION AID

Success for the Future grants will be replaced with American Indian Education aid effective for 2016. Districts with at least 20 American Indian students are eligible for this aid in the amount of approved cost or $20,000 plus $358 per American Indian enrolled on October 1 of the prior school year for enrollment exceeding 20. Districts currently receiving Success for the Future grants will be held harmless.

LONG-TERM FACILITIES MAINTENANCE REVENUE

Beginning in 2017, deferred maintenance, health and safety and alternative facilities revenues will be rolled into a new long-term facilities maintenance revenue program. This new revenue equals the sum of the product of:

1) $193/APU for 2017, $292 for 2018, and $380 for 2019 and later, and
2) The lesser of 1 or the ratio of the district's average building age to 35 years
3) The approved cost of indoor air quality, fire alarm and suppression and asbestos abatement projects with a cost per site of $100,000 or more

The 25 large districts currently eligible for alternative facilities revenue continue to be eligible based on approved project costs without a state-imposed per pupil limit.

Districts may choose to issue bonds for the program, levy on a pay as you go basis, or a combination of the two.

Districts are guaranteed to receive at least as much revenue and state aid as they would have received under existing law.

West Central Education District
Legislative Summary

MISCELLANEOUS LEVIES

The maximum rate for the building lease levy is changed from $162 to $212 per adjusted pupil unit for districts and from $46 to $65 for intermediate district members.

There is a new natural disaster debt service equalization levy available for Districts who have natural disaster damage in excess of $500,000 that is not covered by FEMA or insurance. This is effective for the pay 2016 levy.

The debt service equalizing factors have changed from $3,550 to $3,400 for 2016 and to $4,430 for 2017 and later for tier 1 Districts and from $7,900 to $8,000 for tier 2 Districts.

LOCAL OPTIONAL REVENUE

Local optional revenue is replacing location equity revenue. All districts are eligible for $424 per APU. The revenue will be deducted from the referendum allowance as local equity revenue was in 2015. Districts no longer need to opt out via board resolution. Instead, Districts will indicate the revenue allowance on the levy information system.

ACCOUNTING

A two-year extension was approved through 2017 of authority for school districts to transfer funds with commissioner approval if transfer does not result in additional aid or levy authority. Transfers are not allowed from the food service or community service funds or the reserved/restricted account for staff development.

FINANCIAL REPORTING DATES

The deadline for prior year data corrections for final payments has been moved from December 30 to December 15.

SPECIAL EDUCATION

A new special education formula is enacted beginning in 2016. For 2016, special education aid equals the sum of the new formula aid plus the new formula excess cost aid.

For 2016, the new special education regular formula is the least of:

- 62% of the District's old formula special expenditures for the prior fiscal year
- 50% of the District's nonfederal special education expenditures for the prior fiscal year (including fringe benefits)
- 56% of the amount calculated using a new pupil-driven formula based on prior year data

SPECIAL EDUCATION (CONTINUED)

For 2016, the new special education excess cost aid is the greater of:

- 56% of the difference between the District's prior year unreimbursed nonfederal special education cost and 7% of the District's prior year general education revenue
- 62% of the difference between the District's prior year unreimbursed old formula special education cost and 2.5% of the District's prior year general education revenue

During 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than having those aids flow through the resident district. Tuition bills will be reduced to offset the aid paid to the cooperative and intermediaries.

FOUR DAY WEEKS

Grandfathered districts that currently operate using a four-day week are allowed to maintain this program until the 2019-2020 school year. Future approval is dependent upon meeting the World's Best Workforce goals. If discontinued, districts are allowed a one-year transition time.

VOLUNTARY PREKINDERGARTEN

Starting in 2017, children who are four years old on September 1st of the school year in which they enroll are eligible. Funding is formula driven, with students at MDE approved participating sites generating up to 0.6 pupil units.

Aid entitlement is capped at $27,092,000 for 2017, $27,239,000 for 2018, and $26,399,000 for 2019.

HOME VISITING REVENUE

Effective for 2018, on the Pay 2017 levy, the formula for home visiting revenue is increased from $1.60 to $3.00 times the population under age 5 residing in the District on September 1 of the last school year.

SCHOOL BOARD ELECTIONS

Schools are allowed to appoint someone to a vacant seat; however they are required to hold an election for the vacated seat during the next general election. The appointed position may be negated if 5% of the general election voters sign a petition within the first 30 days.

West Central Education District
Emerging Issues

Executive Summary
The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Accounting Standard Update –GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** –GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

The following are extensive summaries of each of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your District.

ACCOUNTING STANDARD UPDATE – 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 postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 - *ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS* (CONTINUED)

- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement 75 carries forward from Statement 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Information provided above was obtained from www.gasb.org.