GASB Pronouncement Update, Part 1
GASB Pronouncements Effective for 12/31/16 Fiscal Year Ends
- Statement No. 72, Fair Value Measurement and Application
- Statement No. 79, Certain External Investment Pools and Pool Participants
- Statement No. 77, Tax Abatement Disclosures
- Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments
GASB Statement No. 72
Title: Fair Value Measurement and Application

Effective Date: Fiscal years beginning after June 15, 2015
Background

- Addresses accounting and financial reporting issues related to fair value measurements
- Provides guidance for determining a fair value measurement for financial reporting
- Also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements
Definition

- GASB Statement No. 72 defines **fair value** as: “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.”

- Thus, the objective of a fair value measurement is to estimate the **exit price** of assets and liabilities.
Market and Transaction Costs

- In a fair value measurement, the sale of an asset or the transfer of a liability would be expected to take place in the principal market for the asset or liability.

- In the absence of a principal market, the sale of an asset or the transfer of a liability would be expected to take place in the most advantageous market to which a government has access.

- Transaction costs, such as commissions, do not meet the definition of an asset and should be recognized as expenses when incurred.
Quoted Prices

- Generally, quoted prices are the most preferable source for fair value information.

- Certain market conditions may make quoted prices less reliable for fair value measurement.

- If there has been a significant decrease in the volume or level of activity in relation to normal market activity, further analysis of quoted market prices would be needed.

- If evidence indicates a transaction is not orderly, a government would place little, if any, weight on the transaction price.
Valuation Techniques and Inputs

- GASB Statement No. 72 specifies that a valuation technique that is appropriate to the circumstances should be used.

- The technique should maximize the use of **observable inputs** and minimize the use of **unobservable inputs**.

- GASB Statement No. 72 also sets forth three valuation approaches that might be used.
Valuation Approaches

- **Market approach:** Uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or a group of assets and liabilities.

- **Cost approach:** Reflects the amount that would be required currently to replace the service capacity of an asset.

- **Income approach:** Converts future amounts (for example, cash flows or income and expenses) to a single discounted amount. When the income approach is used, the fair value measurement would reflect current market expectations about those future amounts.
Fair Value Hierarchy

- GASB Statement No. 72 also establishes a fair value hierarchy, similar to that set forth by FASB Statement No. 157 for for-profit and not-for-profit entities

- **Level 1 inputs**: unadjusted market prices in active markets for identical assets or liabilities

- **Level 2 inputs**: quoted prices for similar assets or liabilities or market-corroborated observable inputs

- **Level 3 inputs**: unobservable inputs
Fair Value Hierarchy

- The highest priority should be given to Level 1 inputs and the lowest priority to Level 3 inputs.

- Governments may use quoted prices obtained from third parties, such as pricing services or brokers, as long as the government has determined that the quoted prices provided by the third parties have been developed in accordance with the GASB’s guidance.
Investments

- GASB Statement No. 72 generally requires investments to be measured at fair value.

- The Statement defines an investment as: “A security or other asset that a government holds primarily for the purpose of income or profit, and the present service capacity of which is based solely on its ability to generate cash or to be sold to generate cash.”
Investments Excluded from Measurement at Fair Value

- Investments in 2a7-like external investment pools
- Investments in commercial paper & U.S. Treasuries with remaining maturity at time of purchase of one year or less
- Investments in certain life insurance policies
- Investments in common stock that are eligible for the equity method
- Investments in nonparticipating interest-earning investment contracts (CDs purchased directly from a bank)
Net Asset Value

- GASB Statement No. 72 permits governments, as a practical expedient, to estimate the fair value of an investment that does not have a readily determinable fair value using the net asset value per share (or its equivalent) of the investment.

- This will be relevant to certain types of investments such as private equity funds, hedge funds and limited partnerships.

- Additional disclosure requirements for items measured at net asset value per share
Liabilities

- GASB Statement No. 72 also indicates that fair value applies to certain liabilities, such as interest rate swaps and other derivatives.

- The fair value of such a liability would be the price to transfer it to a market participant at the measurement date.
Donated Capital Assets

- Certain types of donated capital assets are required by existing GASB pronouncements to be reported at fair value.

- GASB Statement No. 72 would require these items to instead be reported at acquisition value, which is defined as the price that would be paid for acquiring similar assets having similar service capacity as of the acquisition date.

- This change applies to:
  - Donated capital assets (including donated infrastructure)
  - Donated works of art and historical treasures
  - Capital assets received in a service concession arrangement
Disclosure Requirements

- For recurring and nonrecurring fair value measurements:
  - The fair value measurement at the end of the reporting period
  - The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)
  - A description of the valuation techniques and the inputs used in the fair value measurement

- Illustrative examples in Appendix C
Disclosure Requirements

- For nonrecurring fair value measurements, the reason for the measurement

- For investments in entities that calculate a net asset value per share or its equivalent, information that helps users understand the nature and risks of the investments and whether the investments are likely to be sold at amounts different from net asset value per share
Illustrative Disclosure

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 20X1:

- U.S. Treasury securities of $45 million are valued using quoted prices in an active market for identical assets (Level 1 inputs)
- Corporate bonds of $12 million are valued using a matrix pricing model (Level 2 inputs).
Fair Value – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted process; Level 3 inputs are significant unobservable inputs.
The District has the following fair value measurements as of December 31, 2016:

<table>
<thead>
<tr>
<th>Investments by fair value level:</th>
<th>12/31/2016</th>
<th>Fair Value Measurements Using</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Level 1</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>$ 8,570,496</td>
<td>$</td>
</tr>
<tr>
<td>Government Agencies</td>
<td>20,012,282</td>
<td>-</td>
</tr>
<tr>
<td>Government Bonds</td>
<td>11,954,247</td>
<td>11,954,247*</td>
</tr>
<tr>
<td>Total Investments by fair value level</td>
<td>40,537,025</td>
<td>$</td>
</tr>
<tr>
<td>Money Market Funds - Wells Fargo</td>
<td>41,465</td>
<td></td>
</tr>
<tr>
<td>Money Market Funds - CSAFE</td>
<td>286,084,096</td>
<td></td>
</tr>
<tr>
<td>Total Investments</td>
<td>$ 326,662,586</td>
<td></td>
</tr>
</tbody>
</table>

* In this example, Government Bonds are “on-the-run” U.S. Treasury securities, and therefore Level 1
Example Disclosure – Tabular Format

Investments and Derivative Instruments Measured at Fair Value
($ in millions)

<table>
<thead>
<tr>
<th>Fair Value Measurements Using</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/X1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments by fair value level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>$ 85</td>
<td>$ 85</td>
<td>$ 5</td>
</tr>
<tr>
<td>Commercial mortgage-backed securities</td>
<td>50</td>
<td>$ 45</td>
<td>$ 5</td>
</tr>
<tr>
<td>Collateralized debt obligations</td>
<td>30</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Residential mortgage-backed securities</td>
<td>149</td>
<td>24</td>
<td>125</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>93</td>
<td>9</td>
<td>84</td>
</tr>
<tr>
<td>Total debt securities</td>
<td>407</td>
<td>94</td>
<td>158</td>
</tr>
<tr>
<td>Equity securities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services industry</td>
<td>150</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Healthcare industry</td>
<td>110</td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Total equity securities</td>
<td>275</td>
<td>275</td>
<td></td>
</tr>
</tbody>
</table>
Example Disclosure – Tabular Format

<table>
<thead>
<tr>
<th>Venture capital investments</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct venture capital—healthcare</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Direct venture capital—energy</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Total venture capital investments</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>Private equity funds—international</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Total investments by fair value level</td>
<td>810</td>
<td>$369</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investments measured at the net asset value (NAV)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity long/short hedge funds</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Event-driven hedge funds</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Global opportunities hedge funds</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Multi-strategy hedge funds</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Real estate funds</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Total investments measured at the NAV</td>
<td>222</td>
<td></td>
</tr>
<tr>
<td>Total investments measured at fair value</td>
<td>$1,032</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment derivative instruments</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swaps</td>
<td>$57</td>
<td>$57</td>
</tr>
<tr>
<td>Foreign exchange contracts (liabilities)</td>
<td>(43)</td>
<td>(43)</td>
</tr>
<tr>
<td>Total investment derivative instruments</td>
<td>$14</td>
<td>$14</td>
</tr>
</tbody>
</table>

NOTE: This represents the fair value hierarchy table portion of the disclosure only, and excludes the narrative portions of this disclosure.
NOTE: This table will be accompanied by additional narrative disclosures describing the fund strategies and how fair value has been calculated for each investment.
GASB Statement No. 72
Questions and Answers
Question:

Are cash equivalents subject to the fair value disclosure requirements of Statement 72?
Answer:

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, cash equivalents are measured at other than fair value (including amortized cost) and, consequently, are not subject to the fair value disclosure requirements of Statement 72.

Specific exceptions to fair value measurement for some investments are described in paragraph 69 of Statement 72. Examples of such investments include certain money market investments and nonparticipating interest-earning investment contracts, such as certain nonnegotiable certificates of deposit (CDs).

If a cash equivalent is measured at fair value, the fair value disclosure requirements of Statement 72 apply.
Question:

Most CDs are characterized in paragraph 8 of Statement 31 as nonparticipating interest-earning investment contracts. What disclosure requirements apply to nonparticipating interest-earning investment contracts?
Answer:

A nonparticipating interest-earning investment contract is not negotiable and has redemption terms that do not consider market rates. That form of CD is a type of investment that is a deposit.

The required disclosures for deposits, such as those about deposit policies and custodial credit risk (paragraphs 6 and 8 of Statement 40, respectively), should be made.
Question:

What disclosure requirements apply to a negotiable CD?
A negotiable CD is a form of a participating interest-earning investment contract whose value generally is affected by market (interest rate) changes (paragraph 8 of Statement 31).

For a negotiable CD that is measured at fair value (i.e. whose remaining maturity at the time of purchase is more than one year), the investment risk disclosures of Statement 40, as amended, and the fair value disclosures of Statement 72 should be made.

For a negotiable CD that is measured at amortized cost (i.e. whose remaining maturity at the time of purchase is equal to or less than one year), the investment risk disclosures of Statement 40, as amended, should be made.
Action Steps for Implementing GASB Statement No. 72
Step 1: Identify Items at Fair Value

- Begin by developing a listing of the assets and liabilities the entity will be required to report at fair value.

- Paragraph 64 of GASB 72 requires investments to be reported at fair value.

- Per Basis of Conclusions paragraph B3, GASB 72 does not require anything else to be reported at fair value unless another GASB statement has already required it to be reported at fair value.
Step 1: Identify Items at Fair Value

- Most common other asset/liability at fair value is derivative instruments per GASB 53:
  - Interest rate swaps
  - Foreign currency exchange contracts
  - Fuel purchase contracts
  - Others?
Step 2: Determine Fair Value Source

- Determine what the source of the fair value information will be for each item.
  - Quoted market prices as determined by the government
  - Pricing services or brokers
  - Audited financial statements or other statements received from alternative investment funds
  - Appraisals (how often are these prepared?)

- Don’t simply rely on the fair value reported on monthly bank statements or brokerage statements. Contact the financial institution to understand how they determine the fair value.
Step 3: Contact Pricing Services

- For fair value quotes obtained from pricing services or brokers, contact them to clarify how they determine the price quote.
  - Actual quoted market prices (level 1)
  - Pricing models or matrices (generally level 2)

- Keep in mind that certain U.S. Treasury (off-the-run) and agency securities and corporate bonds are often priced using models or matrices and thus would be level 2.
  - Refer to GASB 72, Appendix C, Illustration 5, example 2
Step 4: Address Investments at NAV

- For investments measured at Net Asset Value (NAV), various specific steps should be performed, as follows:

  A. Obtain the investment fund agreement and/or contact the fund to obtain the necessary information for the disclosure.

     - Unfunded commitments
     - Redemption frequency and notice period
     - Fund strategy and method for determining fair value
Step 4: Address Investments at NAV

B. Consider the source and reliability of fair value information:

- Statements provided by the fund itself: are these sufficiently independent to rely upon?

- Audited financial statements for the fund are preferred. Make sure these financial statements are:
  - Presented in accordance with U.S. generally accepted accounting principles
  - An unmodified opinion was rendered by the auditors
  - Information can be extracted in order to value your share of the fund (for example, a net asset value per share)
C. Consider the timeliness of fair value information:

- Statements provided by the fund are often on a one-month or one-quarter lag. Make sure the information you are using is actually as of your financial statement date.

- Audited financial statements involves the following issues:
  - For some funds, these are not available until 5-6 months after year end
  - Most funds have December 31st fiscal year-ends. This could be problematic if your fiscal year-end is something other than December 31.
Step 4: Address Investments at NAV

- Remember that, per paragraph 71 of GASB 72, these provisions apply to investments valued at NAV or its equivalent
  - Some funds calculate a net asset value per share
  - Other funds simply report the dollar value of your capital account. This is considered to be the equivalent of NAV.
Step 5: Classify FV by Level

- Make a first attempt to classify fair values for all assets and liabilities within the Level 1, 2, and 3 classification scheme.
- Beware of corporate bonds, certain U.S. Treasuries and U.S. agency securities, which are often level 2.
- Beware of publicly traded alternative investment funds (which must be classified in the level 1/2/3 scheme) vs. alternative investment funds reported at NAV (which are not classified in the level 1/2/3 scheme)
Step 6: Accumulate Disclosure Info

- Determine whether all necessary information to prepare the narrative portion of the footnotes is available, as required by paragraph 81 of GASB 72:
  - Description of valuation techniques
  - Nature of any material changes in valuation techniques
  - Nonrecurring fair value measurements and the reason (for example, capital asset impairments, per Illustration 5, example 1)
  - Required disclosures for those investments reported at NAV
Step 6: Accumulate Disclosure Info

- Also, determine at what level assets and liabilities will be aggregated for footnote disclosure purposes.

- Follow the guidance in GASB 72, paragraph 80.
Step 7: Prepare Disclosure

- Prepare a first draft of the fair value disclosure.
- Discuss disclosure with external auditors to ensure agreement regarding:
  - Source of fair value information
  - Level of aggregation
  - Classification as level 1, 2, or 3
  - Thoroughness of disclosure
Step 8: Donated Capital Assets

- Per GASB 72, paragraph 79, these are now to be reported at acquisition value (an entry price).

- Most common examples are donated infrastructure and donated art and historical treasures.
Step 8: Donated Capital Assets

- For donated infrastructure:
  - Is the accounting department notified of donated infrastructure as it is received?
  - Do they receive construction cost information from the developer?
  - If not, do they have a process in place to estimate the acquisition cost:
    - Accumulate the number of lane miles or square feet obtained
    - Have a current construction cost per lane mile or square foot available
    - Multiply these to calculate an estimated acquisition cost
Step 8: Donated Capital Assets

- For donated art and historical treasures:
  - Is the accounting department notified of donated art and historical treasures as it is received?
  - Do they receive cost or appraisal information from the donor?
  - If not, do they have a process in place to estimate the acquisition cost (e.g. an appraisal process)?
Common Investments for Government Entities

How are the following investments disclosed under GASB 72:

- CSAFE
- CSIP
- COLOTRUST
The Entity had invested $554,988 in the Colorado Surplus Asset Fund Trust (CSAFE). CSAFE is considered to be a 2a7-like investments and is valued using the NAV per share (or its equivalent) of the investments. The 2a7-like investments do not have any unfunded commitments, redemption restrictions or redemption notice periods.

The 2a7-like investments conform to Colorado Statutes CRS 24-75-601 et. seq. and therefore invests primarily in securities of the United States Treasury, United States Agencies, Primary Dealer Repurchase Agreements, highly rated commercial paper, highly rated corporate bonds, Colorado depositories collateralized at 102% of market value according to the guidelines of the Public Deposit Protection Act. The investments will conform to its Permitted Investments and will meet Standard & Poor’s investment guidelines to achieve a AAAm rating, the highest attainable rating for a Local Government Investment Pool.
Example Disclosure - CSIP

- The Entity invested $401,275 in a Money Market Mutual Fund. Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair value of investments in money market funds is based on the published net asset values per share of those funds. Money market securities are valued using amortized cost, in accordance with Rule 2a-7 under the 1940 Act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by Prime Series and Government Series are categorized as Level 2.
ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool’s share price multiplied by the number of shares held. The government-investor does not “look through” the pool to report a pro rata share of the pool’s investments, receivables, and payables. This investment is valued using Level 2 inputs.

Note: COLOTRUST published a GASB 72 guidance in the September 2016 publication to its investors. It is a three page document that address GASB 72 reporting and disclosures and states the following: “COLOTRUST is a local government investment pool that is reported at fair value and should be classified on the governmental entities financials at Level 2.”
Questions
GASB Statement No. 79
Title: Certain External Investment Pools and Pool Participants

Effective Date: Fiscal years beginning after December 15, 2015
GASB Statement No. 79

- GASB 79 establishes how participants in external investment pools may measure and report their investments in response to changes to SEC rule 2a7 that provided guidance for such items.

- Establishes additional note disclosure requirements for governments that participate in qualifying pools. These required disclosures include information about limitations or restrictions on participant withdrawals.
Background

- Amortized cost would be expected to approximate fair value for money market funds, as such, they have been permitted to report their investments at amortized cost, and participants have been permitted to report their position based on share value prices that reflect amortized cost.

- Previously, SEC rule 2a7 provided the criteria for defining the qualifying pools, but recent changes in SEC rulings make it impractical to continue to rely on SEC guidance.

- This Statement replaces 2a7 criteria with its own criteria for pools that operate like money market funds.
Criteria for Reporting at Amortized Cost

- External investment pool can be measured by participants at amortized cost if the following criteria are met:
  - Pool measures all of its investments at amortized cost
  - Stable net asset value per share (all contributions & redemptions are transacted at $1.00 NAV per share)
  - Portfolio maturity requirements are met
  - Portfolio quality requirements are met
  - Portfolio diversification requirements are met
  - Portfolio liquidity requirements are met
  - Shadow pricing requirements are met

- Otherwise, measure investments in the pool at fair value
Disclosures

- Participants in qualifying pool that measures its investments at amortized cost should disclose any limitations or restrictions on withdrawals
  - Redemption notice periods
  - Maximum transaction amounts
  - Pool’s authority to impose liquidity fees or redemption gates
GASB Statement No. 77
GASB Statement No. 77

- Title: Tax Abatement Disclosures
- Effective Date: Fiscal years beginning after December 15, 2015
- Requires disclosure of tax abatement information, including description of agreements, gross dollars abated, and commitments made
Defining Tax Abatements

- A reduction in tax revenues that results from an agreement between one or more governments and an individual/entity

- Includes tax abatements resulting from agreements of the government itself, or agreements of others that reduce the government’s tax revenues.
Defining Tax Abatements

- One or more governments promise to forgo tax revenues to which they are otherwise entitled AND

- The individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the government or its citizens
What’s Excluded

- Tax exemptions, for example:
  - Exempting senior citizens or military veterans from property taxes
  - Exempting not-for-profit organizations from property taxes

- Tax deductions, for example:
  - Tax deductions for certain types of charitable contributions

- Tax increment financing arrangements where bonds are issued and incremental revenue is pledged to pay the principal and interest on the bonds
What’s Included

- Tax increment financing arrangements where incremental tax revenue is paid directly to the developer as reimbursement for eligible costs
- Certain types of conduit debt such as Chapter 100 bonds structured for the purpose of tax abatement
- Other types of tax abatement arrangements
New Note Disclosures - General

- Distinguish between agreements entered into directly and those that are entered into by other governments
- Disclosure information may be aggregated; individual display must be based on quantitative threshold
- If agreement is directly with the government, should be organized by each major tax abatement program
New Note Disclosures – General (Cont’d)

- If agreement is entered into by other governments, should be organized by the government that entered into the agreement, and the specific tax being abated

- Disclosure commences in period in which agreement is entered into, and continues until agreement expires.
New Note Disclosures – Agreements Made by the Government

- Descriptive information:
  - Name and purpose of tax abatement program
  - Specific taxes being abated
  - Authority under which the agreements are entered into
  - Eligibility criteria for recipients
  - Mechanism by which taxes are abated: how the taxes are reduced and how the amount is determined
  - Provisions for recapturing abatements, if any
  - Types of commitments made by the recipients of the abatements
The gross (accrual basis) amount by which the government’s tax revenues were reduced as a result of the agreements.

If amounts are received/receivable from other governments in association with forgone tax revenue:
- Name of government
- Authority under which amounts are paid
- Dollar amount received or receivable
If government makes commitments (other than tax reduction) as part of agreement:
- Type of commitment made
- Most significant individual commitments made

If agreements are disclosed individually, a description of the quantitative threshold the government used to determine which agreements to individually disclose

If information is omitted because information is legally prohibited from being disclosed, a description of the general nature of information omitted and specific source of the legal prohibition
New Note Disclosures – Agreements of Other Government

- Descriptive information:
  - Name of governments entering into the agreement
  - Specific taxes being abated

- The gross (accrual basis) amount by which the reporting government’s tax revenues were reduced as a result of the agreements
New Note Disclosures – Agreements of Other Government (Cont’d)

- If amounts are received/receivable from other governments in association with forgone tax revenue
  - Name of government
  - Authority under which amounts are paid
  - Dollar amount received or receivable

- If agreements are disclosed individually, a description of the quantitative threshold the reporting government used to determine which agreements to individually disclose

- If information is omitted because information is legally prohibited from being disclosed, a description of the general nature of information omitted and specific source of the legal prohibition
GASB Statement No. 77 – Tax Abatement Example Disclosures
Sample Entity negotiates property tax abatement agreements on an individual basis. The Entity has tax abatement agreements with three entities as of December 31, 20XX.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Percentage of Taxes Abated during 2016</th>
<th>Amount of Taxes Abated during 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail health and fitness facility</td>
<td>30%</td>
<td>$5,100</td>
</tr>
<tr>
<td>Relocate hardware store</td>
<td>50%</td>
<td>$13,000</td>
</tr>
<tr>
<td>New gas station and convenience store</td>
<td>40%</td>
<td>$8,900</td>
</tr>
</tbody>
</table>

Each agreement was negotiated under a state law (the Economic Development Opportunity Act of 20X1) allowing localities to abate property taxes for a variety of economic development purposes, including business relocation, retention, and expansion. The abatements may be granted to any business located within or promising to relocate to a local government’s geographic area. Localities may grant abatements of up to 50 percent of annual property taxes through a direct reduction of the entity’s property tax bill. The state law does not provide for the recapture of abated taxes in the event an abatement recipient does not fulfill the commitment it makes in return for the tax abatement.
Note X. Tax Abatements

The City enters into property tax abatement agreements with local businesses under the state Economic Development Opportunity Act of 20X1. Under the Act, localities may grant property tax abatements of up to 50 percent of a business’ property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the City.

For the year ended December 31, 20XX, the City abated property taxes totaling $146,480 under this program, including the following tax abatement agreements that each exceeded 10 percent of the total amount abated:

- A 40 percent property tax abatement to a grocery store chain for purchasing and opening a store in an empty storefront in the business district. The abatement amounted to $97,500.

- A 50 percent property tax reduction for a local restaurant increasing the size of its restaurant and catering facility and increasing employment. The abatement amounted to $21,750.
Sample County provides tax abatements under six programs: the Residential Improvement Program, the Office of Film and Television Production Incentives, the Economic Assistance Initiative, the High-Tech Investment Program, the Competitive County Credit, and the Renewable Energy Incentive.

- The Residential Improvement Program provides property tax abatements to encourage improvements to single-family and multiple-unit dwellings. The Program is established under the auspices of a state statute (Code 14, Section 201.1) empowering cities and counties to establish such programs. The abatements equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements, are administered as a reduction in the tax bill, and last for 3 years (or fewer, if the property is sold). Abatements are obtained through application by the property owner prior to commencing the improvements and require subsequent provision by the owner of proof that the improvements have been made. Because taxes are not abated until after the improvements have been made, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.

- The Office of Film and Television Production Incentives tax abatements are intended to attract television, movie, and commercial productions. These abatements are granted pursuant to an ordinance enacted by the County Board of Supervisors (County Economic Development Act of 20X3). Production companies can apply for a refund of sales taxes on qualifying spending within the County. Production companies’ County corporate income tax liabilities are reduced by the amount of qualifying spending, up to 100 percent of the taxes owed. Production companies apply to the Office for admittance into the program in advance of commencing production. Qualifying spending is limited to three years from the date of admittance. Because taxes are abated after the qualifying spending has taken place, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.

- The Department of Economic Assistance operates three tax abatement programs: the Economic Assistance Initiative, the High-Tech Investment Program, and the Competitive County Credit. The Department’s tax abatement programs were created through the passage of an ordinance by the County Board of Supervisors (County Economic Development Act of 20X3). The agreements entered into by the Department include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments.

  - The Economic Assistance Initiative offers individual incentive packages to attract new businesses to the County. Abatements may be granted to any business agreeing to relocate to the County. In addition to property tax abatements for the property constructed or purchased by the new or relocated businesses, the Department also arranges for construction of certain infrastructure features that are ancillary to newly constructed facilities. One agreement involving the relocation and new construction of the central headquarters of a major corporation included a substantial commitment from the County to construct a new exit on County Highway 84 and connecting roadways. The magnitude of the County’s commitments in other agreements is relatively insignificant and is generally consistent across agreements. The maximum property tax abatement is the equivalent of a 75 percent reduction of the assessed value of the property.

  - The High-Tech Investment Program offers reductions in business income taxes to attract businesses in technology industries to move to the County High-Tech Industry Park (CHIP). Abatements may be granted to any technology company agreeing to move into CHIP. The abatement is administered as a credit on a company’s County income tax return and equals 25 percent of the company’s corporate income tax liability. The abatement begins in the year when the company begins its relocation to CHIP. No other commitments were made by the County as part of those agreements.
• The Competitive County Credit offers reductions in business income taxes to attract and retain jobs. Abatements may be granted to any business agreeing to remain in the County or to relocate to the County. The abatement is administered as a credit on a business’ County income tax return and is effective beginning in the year of the agreement (for job retention) or the year when the business begins its relocation to the County (for job attraction). The amount of the abatement is based on the number of jobs retained or attracted. No other commitments were made by the County as part of those agreements.

• The Environmental Conservation Department administers the Renewable Energy Incentive to encourage businesses to invest in solar, wind, and other sources of clean, efficient energy. The program also covers investments in energy-efficient vehicles such as hybrid, electric, and alternative-fuel cars and ancillary facilities, such as charging stations. Those abatements are provided under the authority of the State of Example’s Environmental Protection Division. Companies can apply for a refund of sales taxes on spending related to renewable energy. Companies also can apply for a credit against their County corporate income tax liability for eligible spending, up to a maximum of $100,000. Companies are required to apply to the Department prior to eligible spending. Because taxes are abated after the qualifying spending has taken place, there are no provisions for recapturing abated taxes. No other commitments were made by the County as part of those agreements.

Information relevant to the disclosure of these programs for the year ended December 31, 20XX is:

<table>
<thead>
<tr>
<th>Tax Abatement Program</th>
<th>Amount of Taxes Abated during 20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Improvement Program</td>
<td>$ 40,000</td>
</tr>
<tr>
<td>Film and Television Production Incentives</td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td>13,400</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>12,500</td>
</tr>
<tr>
<td>Department of Economic Assistance</td>
<td></td>
</tr>
<tr>
<td>Economic Assistance Initiative</td>
<td>18,500</td>
</tr>
<tr>
<td>High-Tech Investment Program</td>
<td>9,500</td>
</tr>
<tr>
<td>Competitive County Credit</td>
<td>11,150</td>
</tr>
<tr>
<td>Renewable Energy Incentive</td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td>8,100</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>$ 4,600</td>
</tr>
</tbody>
</table>
Large Government with Many Abatements (Cont’d)

- The County also is subject to tax abatements granted by (1) the Regional Economic Development Corporation (REDC), an entity created by the County and seven other counties in the western part of the State of Example, and (2) the State of Example through its Business Relocation and Development Authority (BRDA) and the Thriving State Economy Initiative (TSEI). These programs have the stated purpose of increasing business activity and employment in the region and the state, respectively.

- Under the REDC program, companies from outside the region can apply for a sales tax exemption on eligible spending related to relocating to one of the member counties. Companies accepted into the program document the sales taxes paid on eligible spending and receive a rebate, up to a maximum of $150,000. Under the state programs, companies promise to expand or maintain facilities or employment in the state, to establish a new business in the state, or to relocate an existing business to the state. Economic development agreements entered into by the BRDA and by the state through TSEI can include the abatement of state, county, local, and school district taxes, in addition to other assistance. In the case of the County, state-granted abatements have resulted in reductions of property taxes, which the County administers as a temporary reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent. Information relevant to disclosure of those programs for the fiscal year ended December 31, 20XX is:

<table>
<thead>
<tr>
<th>Tax Abatement Program</th>
<th>Amount of Taxes Abated during 20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of Colorado:</td>
<td></td>
</tr>
<tr>
<td>Business Relocation and Development Authority</td>
<td>$15,000</td>
</tr>
<tr>
<td>Thriving State Economy Initiative</td>
<td>$13,000</td>
</tr>
<tr>
<td>Regional Economic Development Corporation</td>
<td>7,600</td>
</tr>
</tbody>
</table>

The state reimburses county and local governments for one-third of the reduction in their tax revenues under these agreements, pursuant to their current biennial budget appropriation.
GASB Statement No. 77
Questions and Answers
Question:

A government utilizes tax increment financing (TIF) to encourage economic development. The provisions of the TIF agreement are

- (a) bonds are issued by the government to finance infrastructure improvements in a specific geographic area;

- (b) a baseline for sales tax revenues for the geographic area, including the proposed development, is established prior to the start of the project; and

- (c) the additional sales tax revenues above the baseline are specifically set aside for the payment of the bonds.

Do the requirements of Statement No. 77, *Tax Abatement Disclosures*, apply to this TIF agreement?
Answer: No.

This arrangement does not meet the definition of a tax abatement under Statement 77 for several reasons.

- It is not an agreement with an individual or entity. Consequently, there are no individuals or entities that are required to perform any actions.

- Furthermore, the TIF agreement does not result in a reduction of the government’s tax revenues. Rather, the additional tax revenues in the TIF area are earmarked for debt service on the bonds.

- It should be noted that the name of the transaction is not relevant to the determination of whether it is a tax abatement for financial reporting purposes. A transaction entitled TIF, Payment in Lieu of Taxes, or as-of-right agreement, for example, does not automatically include or exclude the transaction from the requirements of Statement 77.
Question:

A state government enters into an agreement with a business in which the business commits to open 10 new retail stores within the state.

- The agreement meets all of the aspects of the definition of a tax abatement, according to Statement 77, except that it does not involve taxes for which the business would otherwise be liable.

- Under the terms of the agreement, the business is allowed to retain 40 percent of the state sales tax collected from its customers in the new stores for the first 5 years of their operation. Those are taxes the business otherwise would remit to the state, but the taxes are being paid by the business’ customers.

Do the requirements of Statement 77 apply to this agreement?
Answer: Yes

- Even though the taxes are the obligation of the customers and the business is acting solely as the remitter of the sales taxes, the state government forgoes tax revenues as a result of this agreement.

- Consequently, this agreement meets the definition of a tax abatement under Statement 77.
Question:

A government enters into an agreement in February 20X1 with a business to relocate its corporate office and warehouse within the borders of the government.

- Under the terms of the agreement, the government will forgo all property taxes related to the office building and warehouse for a 10-year period, and the business will hire and maintain a workforce of at least 200 employees.

- The company begins construction in the summer of 20X1 but does not open the facility before the end of the year. The government abated property taxes of $21,000 for the fiscal year ended December 31, 20X1.

Considering that the government has abated the taxes prior to the business fulfilling its requirements under the agreement, is the government required to disclose information about this tax abatement agreement in its financial statements for the fiscal year ended December 31, 20X1?
Answer: Yes

- The definition of a tax abatement in Statement 77 requires that the agreement precede the performance of the required action by the individual or entity.

- However, the timing of the reduction in taxes in relation to the performance of the actions by the individual or entity is not relevant to determining whether an agreement meets the definition of a tax abatement for purposes of the Statement.

- The abatement of taxes may begin before or after the individual or entity has fulfilled its commitments under the agreement.
Question:

A state government shares a portion of the gas tax it collects with local governments. The state also enters into tax abatement agreements with companies that allow the companies to retain a portion of the gas taxes they collect in return for installing safer and more ecologically sensitive equipment. Those tax abatements reduce the amount of gas tax revenue that the state receives, and therefore, the amount that the state shares with local governments also is reduced.

Assuming that the agreements otherwise qualify as a tax abatement under Statement 77, are both the state and local governments required to disclose information about these tax abatements?
Answer: No

The state government would disclose information about those tax abatements because its gas tax revenues have been reduced. However, the local governments would not disclose information about the tax abatement agreements because the local government revenue that is reduced is shared revenue, which is not considered to be tax revenue. (See also Questions 7.34.5 and 7.35.1 in Implementation Guide 2015-1.)
Question:

A government with 25 tax abatement agreements identifies 3 major tax abatement programs that encompass 20 of those agreements. Is the government required to disclose information about the five tax abatement agreements not included in the major programs?
Answer: Yes

Information about those five agreements should be disclosed.

- If the tax abatement agreements for the three major programs are reported in the aggregate for each program, the remaining five tax abatement agreements should be reported in the aggregate.

- If, however, a government applies a quantitative threshold to disclose individually some or all of the tax abatement agreements in the three major programs, the same quantitative threshold should be applied to the remaining five tax abatement agreements.
For its own tax abatement agreements, a government chooses to disclose information about individual tax abatement agreements above a specified dollar threshold.

Is the government required to apply the same threshold to its disclosure of tax abatement agreements that are entered into by other governments and reduce the reporting government’s tax revenues?
Answer: No

The government may apply a different quantitative threshold to the tax abatements of other governments. Moreover, the government may choose to disclose information about tax abatement agreements of other governments in the aggregate and not disclose any of them individually.
Question:

Among the tax abatement programs administered by a government is one that encourages businesses in the aerospace industry to locate their manufacturing facilities in its jurisdiction.

- In 20X4, one business participated in the program and received an income tax credit equal to 30 percent of its corporate income tax liability.

- A law in the state where the government is located prohibits the public disclosure of aggregated tax information if the information relates directly or indirectly to a taxpayer’s income or earnings.

How would the government meet the requirements of Statement 77 in light of this legal prohibition?
Answer: Yes but with limitations

The government should disclose whatever information is not specifically prohibited by the state law.

- For instance, if disclosing the gross amount of the tax revenues that were reduced as a result of this tax abatement agreement (paragraph 7b of Statement 77) violates the state law as it relates to the single business participating in the program, the government may omit that amount but should disclose all of the other information required by paragraph 7 of Statement 77.

- The government also should disclose what type of information it omitted and cite the state law that prohibits its disclosure.
GASB Statement No. 76
GASB Statement No. 76

- Title: The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments
- Effective Date: Fiscal years beginning after June 15, 2015
The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the sources of accounting principles and the framework for selecting the principles used to prepare financial statements of state and local governmental entities presented in conformity with generally accepted accounting principles.
The New Hierarchy of GAAP

- (a) Officially established accounting principles – Governmental Accounting Standards Board (GASB) Statements

- (b) GASB Technical Bulletins; GASB Implementation Guides; and literature of the American Institute of certified Public Accountants (AICPA) if specifically cleared by the GASB
The New Hierarchy of GAAP

- Category (a) should be followed before category (b)
- If categories (a) and (b) do not address the accounting treatment for a transaction or event (or a similar transaction or event), nonauthoritative literature may be used, after first considering GAAP for similar transactions
- The nonauthoritative literature cannot conflict with or contradict authoritative GAAP
Nonauthoritative Accounting Literature

- GASB Concepts
- Pronouncements and other literature of the Financial Accounting Standards Board (FASB)
- Federal Accounting Standards Advisory Board
- International Public Sector Accounting Standards Board
- AICPA (other than literature cleared by GASB)
Nonauthoritative Accounting Literature

- Practices that are widely recognized and prevalent in state and local government
- Literature of other professional associations or regulatory agencies
- Accounting textbooks, handbooks, and articles
GASB Pronouncements Effective in Future Years

Pension-Related Pronouncements:

- Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68
- Statement No. 78, Pensions Provided Through Certain Multi-Employer Defined Benefit Pension Plans
- Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, 68 and 73
Agenda

- OPEB-Related Pronouncements:
  - Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
  - Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
Other GASB Statements:
- Statement No. 80, *Blending Requirements for Certain Component Units*
- Statement No. 81, *Irrevocable Split Interest Agreements*
- Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Exposure Drafts
GASB Statement No. 73
GASB Statement No. 73

- **Title:** 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

- **Effective Date:** Fiscal years beginning after June 15, 2016 for employers not subject to GASB 68; fiscal years beginning after June 15, 2015 for plans not subject to GASB 67 and for the amendments to GASB 67 and 68
Entities Not Subject to GASB 67 and 68

- Certain pension plans were not subject to GASB Statements No. 67 or 68 because they were not administered through a trust or equivalent arrangement.

- Statement No. 73 applies the requirements of Statements No. 67 and 68 to such plans.

- However, for plans not administered through trusts, assets accumulated for pensions should not be considered plan assets.
Clarifications of GASB 67 and 68

- Certain information required to be provided as notes to RSI regarding investment related factors significantly affecting trends in amounts reported

- Accounting for separately financed specific liabilities of individual employer and nonemployer contributing entities

- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation
GASB Statement No. 78

- Title: Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans
- Effective Date: Fiscal years beginning after December 15, 2015
Some governments participate in cost-sharing multiple-employer plans that:

- Are not a state or local government pension plan
- Provide benefits to employees of both governmental and nongovernmental employers
- Have no predominant state or local governmental employer, either individually or collectively

Governments involved in such plans have difficulty obtaining necessary information to implement GASB Statement No. 68
Accordingly, Statement No. 78 exempts such governments from most of the accounting and financial reporting requirements of Statement No. 68.

Instead:

- Pension expense is recognized for the employer’s required contributions to the plan for the reporting period.
- A payable is reported for unpaid amounts at the end of the reporting period.
GASB Statement No. 82
Title: *Pensions Issues – an amendment of GASB Statements No. 67, No. 78 and No. 73*

Effective Date: Fiscal years beginning after June 15, 2016. Provisions related to selection of assumptions when pension liability is measured at date other than employer’s most recent fiscal year end are effective for first reporting period where measurement date is on or after June 15, 2017.
Statement No. 82 Fixes

- For the RSI required by Statements No. 67 and 68, covered payroll (instead of covered-employee payroll) is to be presented
  - Covered-employee payroll = payroll of employees provided with pensions
  - Covered payroll = portion of compensation paid upon which plan contributions are based

- Any deviations from Actuarial Standards of Practice are not considered to be in conformity with Statements No. 67, 68 or 73
Statement No. 82 Fixes

- If an employer makes payments to the plan to satisfy the employee portion of contributions, these should be classified as employee contributions for purposes of Statements No. 67 and 68
  - These amounts should also be included in salaries and wages expense within the financial statements
GASB Statement No. 74
Title: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective Date: Fiscal years beginning after June 15, 2016
Historically the treatment for Other Post Employment Benefits (OPEB) has mirrored the treatment for pensions

- OPEB plans are substantially the same as pensions in that employees are compensated for service in a later period

- GASB Statement No. 67 and 68 were issued

- GASB Statement No. 74 and 75 restore parallel treatment for pension and OPEB financial reporting
Essentially applies requirements similar to those in GASB Statement No. 67 to OPEB Plans administered through trusts. Two financial statements—the statement of fiduciary net position and the statement of changes in fiduciary net position—would be required. Additionally, notes and RSI similar to GASB Statement No. 67 would be required, including actuarial calculations regarding the funded status of the plan.
Scope And Applicability

- Applies to OPEB plans—defined benefit and defined contribution—administered through trusts that meet the specified criteria
  - Contributions are irrevocable
  - OPEB plan assets are dedicated to providing OPEB to plan members
  - OPEB plan assets are legally protected

- Not administered through trust?
  - Government would report assets in an agency fund
Financial Statements

- Statement requires two financial statements—
  1) Statement of fiduciary net position
  2) Statement of changes in fiduciary net position
Notes And RSI

- Descriptive information about the plan
- Details on plan investment policy and plan investments
- Additional notes required for single-employer and cost-sharing OPEB plans
  - Components of net OPEB liability and related ratios
  - Assumptions used to measure total OPEB liability, discount rate and sensitivity analysis
- 10 years of select information in RSI, as it becomes available
Net OPEB Liability

- Equals total OPEB liability less the OPEB plan’s fiduciary net position
- Total OPEB liability must be based on an actuarial valuation, performed every 2 years (minimum)
  - Alternative measurement allowed for small plans
- Fiduciary net position comes from the plan financial statements
Discount Rate

- Single rate that reflects (1) a long-term expected rate of return on OPEB plan investments and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.
Title: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Effective Date: Fiscal years beginning after June 15, 2017
GASB Statement No. 75

- Applies requirements similar to GASB Statement No. 68 to OPEB employers. Single employer and agent employers would report a net OPEB liability equal to the present value of projected benefit payments less the OPEB plan’s fiduciary net position. Cost sharing employers would report a liability equal to their proportional share of the plan’s net OPEB liability. Note disclosures and RSI similar to GASB Statement No. 68 are also required.
Employer liability is a net liability and is not related to unfunded contributions.

Employer expense is not related to how a government chooses to fund its OPEB plan.

Governments participating in cost-sharing plans recognize a liability equal to its proportionate share of collective liability and expense.
Defined Benefit OPEB—administered through a trust

Employers are classified in one of three categories:

1) Single employers whose employees are provided with defined benefit OPEB through single-employer OPEB plans

2) Agent employers where plan assets are pooled for investment purposes but separate accounts are maintained by employer so that each employer’s share of the pooled assets is legally available to pay the benefits of only its employees.

3) Cost-sharing plans where OPEB obligations are pooled and assets are used to pay the benefits of the employees of any employer.
Net OPEB Liability

- Equals total OPEB liability less the OPEB plan’s fiduciary net position

- Total OPEB liability must be based on an actuarial valuation, performed every 2 years (minimum)
  - Alternative measurement allowed for small plans

- Fiduciary net position comes from the plan financial statements
  - Like pension plans, OPEB plans will implement new standards before the employers
Actuarial Valuation

- As of a measurement date that is NO earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year or use update procedures to roll forward to the measurement date from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer’s most recent fiscal year-end.

- Single discount rate (explained earlier)

- Single actuarial method
  - Entry age
  - Level percentage of pay
Single And Agent Employers

- Recognize a liability equal to the net OPEB liability
- Changes in the net OPEB liability during the year will either be reported as expense or deferred outflows/inflows of resources
## Components Of Expense

### Changes in Net OPEB Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>OPEB Expense</th>
<th>Deferred Inflows/Outflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Employee work and earn benefits (service costs)</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>2-Interest on total OPEB liability</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>3-Change in total OPEB liability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>change in terms of OPEB benefits</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>change in assumptions about economic &amp; demographic factors</td>
<td></td>
<td>Amortize over service period</td>
</tr>
<tr>
<td>actual economic &amp; demographic results differing from assumptions</td>
<td></td>
<td>Amortize over service period</td>
</tr>
<tr>
<td>4-Change in amount of OPEB plan net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>projected investment earnings</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>actual investment earnings differing from assumed earnings</td>
<td></td>
<td>Amortize over 5 years</td>
</tr>
<tr>
<td>all other</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>5-Change in proportionate share (cost sharing plan only)</td>
<td></td>
<td>Amortize over service period</td>
</tr>
</tbody>
</table>
Notes And RSI

- Descriptive information about the plan
- Components of net OPEB liability and related ratios
- Significant assumptions and other inputs used to calculate the total OPEB liability
- Date of valuation
- Basis for determining employer contributions
- 10 years of select information in RSI, as it becomes available
In governmental fund financial statements, a net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources.
Cost-Sharing Employers

- Recognize a liability for its proportionate share of the collective net OPEB liability
- Recognize OPEB expense and report deferred outflows/inflows of resources OPEB for its proportionate shares of those items
- Notes and RSI requirements similar to single and agent employers
Defined Benefit OPEB—Not administered through a trust

- For employers that provide insured benefits through an arrangement whereby premiums are paid to an insurance company, OPEB expense/expenditures equals the amount of premiums.
- All other non-trust situations would follow the rules outlined in this Statement for OPEB plans that are administered through trusts that meet the specified criteria, modified for lack of OPEB plan assets.
Defined Contribution Plans

- Generally, recognize OPEB expense equal to the amount of contributions
- OPEB liability to the extent OPEB expense exceeds amounts paid by the employer to the plan
- Notes include descriptive information about the plan, benefit terms and contribution rates
Special Funding Situations

- Defined as circumstances in which a nonemployer entity is legally responsible for providing certain forms of financial support for OPEB of the employees of another entity

- Adjustments are made for the involvement of the nonemployer

- Recognition by the nonemployer contributing entity is similar to the approach required for cost-sharing employers (proportionate share)
GASB Statement No. 80
Title: Blending Requirements for Certain Component Units

Effective Date: Fiscal years beginning after June 15, 2016
GASB Statement No. 80

- Creates an additional blending criteria: when component unit is incorporated as a not-for-profit and the primary government is the sole corporate member, the component unit should be blended.

- Does not apply to component units included in the financial reporting entity via Statement No. 39 (i.e., most university foundations).
Does not mean that all not-for-profits for which the primary government is the sole corporate member are component units.

Still must go through existing component unit guidance first, and then if the not-for-profit is a component unit determine whether to discretely present or blend.
GASB Statement No. 81
Title: *Irrevocable Split-Interest Agreements*

Effective Date: Fiscal years beginning after December 15, 2016
Establishes accounting and financial reporting guidance for **split-interest agreements**, which are a type of giving arrangement used to provide resources to two or more beneficiaries. Examples include charitable remainder trusts, charitable lead trusts, and charitable gift annuities.
GASB Statement No. 81

- Statement applies to:
  - Irrevocable split-interest agreements
  - Created through trusts or equivalent arrangements

- Statement specifically excludes beneficial interests in perpetual trusts
  - These should be evaluated as voluntary non-exchange transactions under GASB Statement No. 33.
A government could have:

- **Remainder interest** – The right to receive resources at the end of the agreement’s term
- **Lead interest** – The right to receive resources throughout the agreement’s term

The government also may or may not be the **intermediary** for the trust:
- The entity holding and administering the resources pursuant to the agreement
Intermediary and Remainder Interest

- When the government is the intermediary and has a remainder interest:
  - At inception, record an asset for the fair value of the trust assets, a liability for the amount due to third parties over the course of the agreement, and a deferred inflow for the government’s remainder interest
  - Disbursements to third parties reduce the liability
  - Liability and deferred inflow remeasured each year
  - Deferred inflow recognized as revenue upon termination of the trust
Intermediary and Lead Interest

- When the government is the intermediary and has a lead interest:
  - At inception, record an asset for the fair value of the trust assets, deferred inflow for the amount due to the government throughout the agreement, and a liability for the amount due to third parties upon termination.
  - Disbursements to the government reduce deferred inflow and result in revenue being recognized.
  - Liability and deferred inflow remeasured each year.
  - Upon termination, liability and any remaining deferred inflow are eliminated.
When the government is NOT the intermediary:

- At inception, record an asset and a deferred inflow for future distributions to be received
- Asset and deferred inflow remeasured each year
- Upon termination of the trust (for remainder interests), or as distributions are received (for lead interests), the deferred inflow is recognized as revenue
GASB Statement No. 83
Title: Certain Asset Retirement Obligations

Effective Date: For reporting periods beginning after June 15, 2018. Earlier application is encourage.
An asset retirement obligation is a legally enforceable liability associated with the retirement of a tangible capital asset.

Retirement encompasses the asset sale, abandonment, recycling or disposal in some other manner.
Exclusions

- The statement does not apply to obligations for asbestos removal that result from other than normal operation of a tangible capital asset.
Determination

- Requires that recognition occur when the liability is both incurred and reasonably estimable.

- The determination of when a liability is incurred is based on external laws, regulations, contracts, or court judgments combined with an event internal to the government that obligates the government.

- For contamination related asset retirement obligations, the event of occurrence is the contamination.
For non-contamination related asset retirement obligations, the liability is recognized by:

- Putting the asset into operation and consuming a portion of the usable capacity (for example, a coal mine);
- Placing the asset into operation (e.g., a wind turbine); or
- Abandonment prior to placing into operation
Recognition

- A government should initially measure a deferred outflow of resources associated with an ARO at the amount of the corresponding liability upon initial measurement.

- Subsequent to initial measurement
  - a government should at least annually adjust the current value of its ARO for the effect of inflation/deflation.
  - Annually evaluate all relevant factors
Recognition

- Upon initial measurement of a deferred outflow of resources for an ARO, a government should recognize a reduction of the deferred outflow of resources as an outflow of resources (expense) in a systematic and rational manner over a period of time.

- For example, over the entire estimated useful life of the tangible capital asset for a deferred outflow reported at the beginning of a tangible capital asset’s estimated useful life.
Exposure Drafts
Exposure Draft

- Fiduciary Activities
- Leases
- Certain Debt Extinguishment Issues
- Omnibus 201X
- Implementation Guides
Exposure Draft, *Fiduciary Responsibilities*
Exposure Draft

- Issued: December 2015
- Comments Due: March 31, 2016
- Revises and clarifies the criteria for determining whether an activity is a fiduciary activity
- Revises and clarifies the types of fiduciary funds and the financial reporting for each
A government should report an activity as a fiduciary activity if:

- The government controls the assets of the activity
- The assets of the activity are not derived solely from the government’s own-source revenue, AND
- One or more of the criteria on the next slide are met.
Additional Criteria

- The assets are administered through a trust or equivalent arrangement of which the governments is not a beneficiary.
- The assets are to be provided to individuals not required to be residents or recipients.
- The assets are to be provided to organizations that are not part of reporting entity or recipients.
- The assets result from a pass-through grant for which the government has no involvement.
Other Fiduciary Activities

- Assets held as part of pension or OPEB arrangements
- Component units that are fiduciary in nature
Types of Fiduciary Funds

- Pension and OPEB trust funds
- Investment trust funds
- Private-purpose trust funds
- Custodial funds
Custodial Funds

- Replace agency funds under current model
- For activity not held in a trust
- Unlike agency funds, custodial funds will have an “income statement”
- Unlike agency funds, custodial funds will have net position
Exposure Draft, Leases
Exposure Draft

- Issued: January 2015
- Comments Due: May 31, 2016
- Establishes a single approach to accounting for leases that will eliminate the current operating and capital lease classifications
- Tentative effective date: periods beginning after December 15, 2018
A contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.

The lease “term” is defined as the period during which a lessee has a noncancellable right to use the asset plus any options to extend or terminate if it is reasonably certain that the lease will continue.
Exclusions From Lease Guidance

- Short-term leases with a term, including renewal options, of 12 months or less
- Leases that transfer ownership (report as a financed purchase instead)
- Contracts that meet the definition of a service concession arrangement under GASB 60
The proposed GASB leases standard contains a number of significant differences from the FASB leases standard.

The biggest difference has to do with types of leases:

- The FASB retained a distinction between Type A (e.g. capital) leases and Type B (e.g. operating) leases.
- The GASB model contemplates a single lease type similar to the current capital lease model.
Lessee Accounting

- Recognize a lease liability and an intangible asset at the beginning of a lease
- Lease liability measured at present value of lease payments over the lease term
- Intangible asset measured at the value of the lease liability plus any prepayments and certain indirect costs
- Recognize interest expense on the liability and amortization expense on the lease asset
Lessor Accounting

- Recognize a lease receivable and a deferred inflow of resources at the beginning of a lease
- Lease receivable measured at present value of lease payments to be received over the lease term
- Deferred inflow of resources measured at the value of the lease receivable plus any prepayments
- Recognize interest revenue on the receivable and revenue over the term of the lease from the deferred inflow of resources
- Do not derecognize the underlying asset in the lease
Terminations result in the adjustment of the carrying value on both the lessee and lessor’s books and recording a gain/loss

Modifications result in the remeasurement of the lease liability for the lessee

Modifications result in the remeasurement of the lease receivable for the lessor
Some leases contracts involve multiple components, such as a lease component and a service component. These should be accounted for as separate contracts. Use contract prices (if present) to allocate, if these are reasonable based on observable, stand-alone prices. If no contract prices, use observable stand-alone prices to allocate if readily available. If no readily available stand-alone prices, estimate prices for each component or treat entire contract as a lease.
Note Disclosures

- A general description of the lease arrangement
- Total amount of assets recorded under leases, and the related accumulated amortization (lessee)
- The cost of assets on lease or held for leasing, by major class, and the amount of accumulated depreciation (lessor)
- The amount of expense (lessee) or revenue recognized (lessor) during the period
- Schedule of future lease payments to be made or received in each of the five subsequent years and in five-year increments thereafter
To provide an overview of the P-Card process.

To be able to identify potential fraud indicators for P-Card transactions.

To understand the key internal controls necessary for a P-Card program.
P-Card Process Overview

- **P-Card definition**
  - An organizational charge card that allows employees to purchase goods and services without using a traditional purchasing process.

- **Cards may be used for:**
  - Purchases;
  - Travel-related expenditures; or
  - Both.
P-Card Process Overview (cont.)

- P-Card – Roles and Responsibilities

- Holder
- Approver
- Reconciler
- Program Administrator
- Servicer
P-Card Process Overview (cont.)

- P-Card v. Traditional Purchasing Process
  - Streamline the procurement process.
  - Reduce organization cost.

P-Card Process

| P-Card Purchase | Review & Approve Spend | Integrate with GL |

Traditional Purchasing Process

| Requisition | Purchase Order | Receive Invoice | Reconcile PO | Approval | Prepare and Mail Checks | Post Payment to GL |
Organization must have guidelines in place for:
- One time and monthly transaction limits.
- Type of authorized transactions.
- Administrative requirements such as approvals, frequency of reconciliations, and required receipts.
Risks to Your Organization

- Misuse or abuse through the following methods:
  - Inappropriate/unnecessary purchases;
  - Personal purchases; or
  - Collusion of holders/approvers.

- Non-compliance with Purchasing Policy.

- Non-compliance with State or Federal Statute.
Red Flags

- Round dollars transactions (frequency, vendor).
- Merchant classification codes.
- Transactions just below purchasing or review thresholds.
- Transactions which occur on holidays or weekends.
- P-Card holders with a higher than average spend in comparison to the entire population.
Fraud Indicators

TIPS ARE THE MOST COMMON DETECTION METHOD
47% organizations with hotlines VS 28% without hotlines

MAJORITY of fraudsters are first time offenders

5% lost annual revenue

23% cases caused losses over $1 MILLION

Proactive data monitoring results in 54% fewer losses

$150,000 loss per incident

88% of background checks do not reveal prior misconduct

18 months duration of fraud scheme

60% of organizations had $0 recovery

Key Internal Controls

Victim organizations that lacked anti-fraud controls suffered greater median losses—in fact twice as much.

- Proactive data monitoring/analysis: $92,000 / $200,000
- Management review: $100,000 / $200,000
- Hotline: $100,000 / $200,000

Key Internal Controls: Data Analysis

- P-Card transaction analysis.
  - Vendor analysis.
    - Vendor name/address match to employee or elected official name/address match.
    - Vendors that should be converted to a contract based on volume of transactions.
  - Item analysis.
    - Identification of the same item purchased from multiple vendors (should it be bid out to get the best price, or be converted to an inventory item?).
    - Items that should go through the purchase order process, for example, capital expenditures.
Key Internal Controls: Mgmt. Review

- Review and approval of P-Card transactions.
  - Reviewer is knowledgeable about spend.
  - Approval is timely.
  - Receipts are submitted and reasonable.
  - Ask questions.
Key Internal Controls: Hotline

- An ethics hotline is an effective detective control for potential misuse.
  - Who can make a report?
  - Ways to make a report.
  - Increase awareness of hotline.
  - Training on receiving a report.
  - Communicate actionable items.
Key Internal Controls: Preventive

- Policy/procedure manual on appropriate usage of P-Card.
- Training.
- Merchant code restrictions (imposed by servicer).
- Segregation of duties between holders/approvers.
- Credit checks for potential holders/approvers.
Case Study #1

- Manager at a utility for a small city.
- Collusion among holder/approver.
- Large number of P-Cards in organization, some of which were consistently inactive.
- Low visibility into P-Card transactions.
- Several instances where a supplier contract should have been established.
Case Study #1 (cont.)

- Action was taken against Manager.
- Revised controls were put into place, including thresholds for additional approval.
Secondary Review Thresholds

<table>
<thead>
<tr>
<th>Threshold for Secondary Review ($)</th>
<th>Spend Reviewed ($)</th>
<th>Spend Not Reviewed ($)</th>
<th>Transactions Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>$250 Threshold</td>
<td>87%</td>
<td>13%</td>
<td>36%</td>
</tr>
<tr>
<td>$500 Threshold</td>
<td>73%</td>
<td>27%</td>
<td>22%</td>
</tr>
<tr>
<td>$750 Threshold</td>
<td>61%</td>
<td>39%</td>
<td>15%</td>
</tr>
<tr>
<td>$1,000 Threshold</td>
<td>51%</td>
<td>49%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Case Study #2

- Clerk for a facilities department at a government agency.
- Split purchases based on amount and day.
- Collusion among holder/approver which led to unusual purchases around holidays.
- Excessive purchase of some items (such as boots, gloves, etc.)
Case Study #2 (cont.)

- Clerk was put on administrative leave temporarily.
- Retraining was required prior to obtaining card back (transaction limit was reduced).
Benford’s Analysis

First 2 Digits Test for P-Card Transactions
Transactional P-Card data was plotted for a municipal government.

Reviewed outliers and found that one area (leading digit 99) did not have a reasonable explanation.

Further review found suspicious transactions by a clerk.

Resulted in suspension and a forensic analysis to determine extent of misuse.
Key Points

- P-Cards can increase organizational efficiency.
- P-Cards can also increase the opportunity for fraud, misuse, or abuse.
- Strong internal controls can help prevent and detect fraud, misuse, and abuse.
Questions?
Submission to Federal Audit Clearinghouse
At the conclusion of the audit, the financial statements and single audits are submitted via the Federal Audit Clearinghouse website.

Submissions to FAC are due 9 months after fiscal year end or 30 days after the single audit report becomes available, whichever is earlier.

Website is [https://harvester.census.gov/facides](https://harvester.census.gov/facides)

Also, can be located by entering “Federal Audit Clearinghouse” into Google.
Federal Audit Clearinghouse


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**First-Time Users**

To submit single audits using this system, you must have an account. To begin, click the Create an Account button below.

- [Create an Account](#)

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**Returning Users**

If you are a returning user, enter your **User E-mail** and **User Password** below.

- **User E-mail**: (example: john.doe@census.gov)
- **User Password**

- [Sign In](#)  |  [Reset User Password](#)
Federal Audit Clearinghouse

- Requires user name (email address) and password
- Password expires after 30 days, so you will be prompted to reset the password if you have not logged in for a while
- Various changes made to the website to conform to UG changes
Federal Audit Clearinghouse changes

- More auto-generated fields (e.g. federal program and cluster totals)
- More auto-assisted fields (e.g. name of federal program based on CFDA number input)
- More edit checks
- Changes to address new UG requirements:
  - Pass-through identifying number
  - End of audit period loan balance field
  - Field to include prior-year finding reference numbers
Federal Audit Clearinghouse changes

- Auditee and auditor certification statements updated
- Those searching the database can now download your full financial statements and single audit reports
  - Previously, only the data collection form was accessible
- All the more reason to maintain compliance and minimize the number of compliance and control findings!
Questions