MONDAY ■ MAY 22, 2017
10:30 AM-12:10 PM

Accounting and Auditing Year in Review

MODERATOR/SPEAKER

Todd Buikema
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SPEAKERS

R. Kinney Poynter, CPA
Executive Director, NASACT

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Today’s Topics

- Auditing
  - OMB’s Uniform Guidance
    - Key Implementation Issues
    - Current Developments
  - Auditing Standards Update
    - GAO’s Proposed *Government Auditing Standards*
    - AICPA Standards (SAS No. 132, SSAE No. 18)
- Other Emerging Issues
Today’s Topics

- Accounting & Financial Reporting
  - OPEB-Related GASB Statements (No. 74 & 75)
  - Pension-Related GASB Statements (No. 73, 78, 82)
  - Other GASB Statements (No. 77, 79, 80, 81, 83, 84, 85)
  - GASB Exposure Drafts and Other Documents For Public Comment
  - Projects on GASB’s Agenda
Meet the Speaker

R. Kinney Poynter, Executive Director,
NASACT
OMB Grant Reform

- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”)*
  - Final Rule issued on December 26, 2013
    - Contained in 2 CFR Part 200
    - Effective dates:
      - Federal agencies on December 13, 2014
      - Subpart F audit requirements are applicable to fiscal years beginning on or after December 26, 2014
  - Interim Rule (for agencies) issued on December 19, 2014

- Resources:
  - [http://www.whitehouse.gov/omb/grants_docs/](http://www.whitehouse.gov/omb/grants_docs/)
  - [https://cfo.gov/cofar/](https://cfo.gov/cofar/)
Grant Reform Implementation

- OMB continues to work on a series of FAQs to clarify the guidance
  - Most recent update in September 2015
    - Currently 100 FAQs
    - Next round of FAQs are expected in Spring 2017
- Technical correction issued in September 2015
- OMB has developed metrics to identify if the reforms have achieved the stated purpose of increasing efficiencies and reducing burden
- Rule revision expected for exposure in Spring 2017
Implementation Issue

- Risk Assessments for Type B programs (200.518)
  - **All** high-risk Type B programs identified through risk assessment must be tested as major
  - If you risk assess too many Type B programs, you will over audit
    - Example: With 10 low-risk Type A programs, you only need to select 3 high-risk Type B programs (25%). But, if you conduct risk assessments on 10 Type B programs and 7 are deemed high risk, you will have to audit all 7 as major programs.
  - Key: Stop risk assessing Type B programs when the threshold is met!
Implementation Issue

- **Audit findings follow-up (200.511(a))**
  - Auditee is responsible for follow-up and corrective action on all audit findings
  - Corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements which are reported under GAGAS.
    - Must now include non-federal findings in CAP and schedule of prior audit findings.
Implementation Issue

- Corrective Action Plan (200.511(c))
  - Auditee must prepare, in a document separate from the auditor’s findings, a corrective action plan (CAP) to address each audit finding
  - CAP must provide the:
    - Name(s) of the contact person(s) responsible
    - Corrective action planned
    - Anticipated completion date
    - Explanation and specific reasons for disagreement with the audit findings, where applicable
Implementation Issue

- "Smoothing" of Major Programs
- Heavy Audit Burden in Year 3 (2018)
  - New high-risk criteria will cause more Type A programs to be deemed low-risk
    - However, **all** Type A programs must still be tested as major at least once every three years
      - As a result, there will be a heavy audit burden in year 3 due to large number of low-risk Type A programs that must be tested as major
    - "Smoothing" of major programs over three-year period is a solution
  - 2016 Compliance Supplement allowed "smoothing" technique
    - Appendix VII - Other Audit Advisories
Current Developments: Pension Plan Costs Allowability

- Section 200.431(g)(3)
  - “For entities using accrual based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP”
    - GASB 68 calculated pension costs differ from the amounts funded
  - HHS DCA is currently disallowing amounts funded in excess of GASB 68 amount (but awaiting OMB guidance)
  - OMB will issue a proposed revision in Spring 2017
Current Developments: Testing SFA Cluster as Major

- U.S. Department of Education (ED)
  - Section 487(c) of the Higher Education Act of 1965 (HEA) requires that each Title IV participating institution submit a financial and compliance audit “on at least an annual basis”
    - Conflicts with UG when SFA cluster is not selected as a major program
  - ED issued memo on August 5, 2016
    - If Title IV programs are low risk, institutions should “contact their respective School Participation Division.”
  - AICPA GAQC Alert (August 22, 2016)
  - ED will look at this issue again for 2017 Compliance Supplement
    - Follow same approach as FY 2016 single audits
  - ED is also considering a new special test and provision on Securing Student Information
    - OMB decided to delay until 2018 Compliance Supplement
CFDA Number – Changes Coming Soon!

- New Schematic
  - Numbering construct associated with CFDA numbers will be changed from ##.### to ###.####
    - Prefix will align with 3-digit Common Government-wide Accounting Classification (CGAC) agency code used in the Treasury Account Symbol (TAS) listed in Circular A-11, Appendix C
    - Suffix is changed to 4 digits to allow additional space for future entries
  - Effective October 1, 2018
- CFO Council alert for more information
Audit Standards Update
Government Auditing Standards

- “Yellow Book” or
- Generally Accepted Government Auditing Standards (“GAGAS”)
GAO’s Government Auditing Standards

- Exposure Draft issued April 6, 2017
  - First proposed changes since 2011
  - Comment period ends July 6, 2017
- Why Issued?
  - Represents a modernized version that takes into account developments in the accounting and auditing professions
  - Intended to reinforce principles of transparency and provide a framework for high quality government audits
- Effective date: to be determined
- Issue date: 2018
- http://gao.gov/yellowbook/overview
GAO’s Government Auditing Standards

- Some of the key proposed changes:
  1. New format and organization of GAGAS
  2. Independence threats related to preparing records and financial statements
  3. Independence guidance related to three-party arrangements
  4. Independence guidance related to professional services in government
  5. GAGAS qualification for CPE requirement
GAO’s Government Auditing Standards

- Key proposed changes (cont.):
  6. CPE guidance for 24-hour and 56-hour requirements
  7. Peer review requirements
  8. Internal control: financial audits, examination engagements, and performance audits
  9. New requirements for waste
  10. Standards for reviews of financial statements
GAO’s Government Auditing Standards

- Formatting Changes and Realignment
  - Requirements will be differentiated from application guidance ("clarity format")
    - "must" and "should" statements are highlighted in the requirements
  - Supplemental Guidance (Appendix from 2011) is either removed or incorporated into individual chapters
GAO’s Government Auditing Standards

- Chapter reorganization and realignment
  - Chapter 1: Foundation and Principles
  - Chapter 2: General Requirements
  - Chapter 3: Ethics, Independence, Professional Judgment
  - Chapter 4: Competence and CPE
  - Chapter 5: QC and Peer Review
  - Chapter 6: Standards for Financial Audits
  - Chapter 7: Standards for Attestation Engagements and Reviews of Financial Statements
  - Chapter 8: Fieldwork Standards for Performance Audits
  - Chapter 9: Reporting Standards for Performance Audits
Independence Threats: Preparing Accounting Records and Financial Statements (3.89)

- Any services performed by auditors related to preparing accounting records and FS, other than those defined as impairments, create significant threats to auditors’ independence.

Auditors should:

- Document the threats and safeguards applied to eliminate and reduce threats to an acceptable level OR
- Decline to perform the service.
GAO’s Government Auditing Standards

- Independence Threats: Preparing Accounting Records and Financial Statements (cont.)
  - Certain services impair independence (3.88)
    - Determining or changing JE, account codes, or accounting records without management’s approval
    - Authorizing or approving the entity’s transactions
    - Preparing or making changes to source documents without management approval
GAO’s Government Auditing Standards

- GAGAS Qualification CPE Requirement
  - Standards are revised to require that auditors who conduct an engagement in accordance with GAGAS complete GAGAS qualification requirements by completing 4 hours of CPE in GAGAS topics: (4.15)
    - Supervisors and partners or directors should obtain GAGAS Qualification before completing work on their first GAGAS engagement
    - Entry-level staff should obtain GAGAS Qualification by the end of their first full 2-year CPE period
GAO’s Government Auditing Standards

- GAGAS Qualification CPE Requirement (cont.)
  - To update their GAGAS Qualification, auditors should complete at least 4 hours of CPE in GAGAS topics each time the Comptroller General issues a revision of GAGAS (4.17)
    - These CPE hours should be completed by the end of each auditor’s next full 2-year CPE period after the GAGAS revision is issued
  - CPE Q&A document (2005) is superseded
GAO’s Government Auditing Standards

Peer Review Requirements

- The standards for peer review are revised to differentiate requirements for those audit organizations affiliated with a recognized organization (5.64).

- Standards require that audit organizations affiliated with a recognized organization comply with the respective organization’s peer review requirements and additional GAGAS peer review requirements in areas such as:
  1. Selection of GAGAS engagements
  2. Peer review report ratings
  3. Availability of peer review report to the public
Peer Review Requirements (cont.)

Standards require that audit organizations not affiliated with a recognized organization comply with GAGAS peer review requirements in areas such as: (5.65)

- Peer review scope
- Peer review intervals
- Written agreement for peer review
- Peer review team
- Follow-up on prior peer review
- Assessment of peer review risk
- Report content
- Peer review report ratings
- Audit organization’s response to the peer review report
- Availability of the peer review report to the public
GAO’s Government Auditing Standards

New Requirements for Waste

- For financial audits, examination engagements, and performance audits, standards are expanded to require that auditors perform audit procedures to ascertain the potential effect on the audit objectives if they become aware of waste (6.16, 7.18, 8.69)

  - Auditors are required to report when waste has occurred that is material or has a significant effect on the audit objectives for financial audits, examination engagements, and performance audits (6.35, 7.41, 9.32)

  - Auditors are required to communicate in writing waste that does not have a material or significant effect on the audit objectives but warrants the attention of those charged with governance for financial audits, examination engagements, and performance audits (6.39, 7.42, 9.33)
What is Waste? (6.17, 7.19, 8.75)

- The act of using or expending resources carelessly, extravagantly, or to no purpose.
- Waste involves the taxpayers not receiving reasonable value for money in connection with any government-funded activities because of an inappropriate act or omission by parties with control over or access to government resources.
- Waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.
GAO’s Government Auditing Standards

- Standards for Reviews of Financial Statements
  - Statement on Standards for Accounting and Review Services No. 21, Section 90 (Review of Financial Statements) is incorporated for auditors conducting reviews of financial statements in accordance with GAGAS (7.01)
AICPA ASB Update

- New Audit Standards
  - SAS No. 132 (February 2017)
- New Attestation Standards
  - SSAE No. 18, *Attestation Standards: Clarification and Recodification* (April 2016)
The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern

- Issued on February 22, 2017
- Supersedes SAS 126 (same title)
- Effective date:
  - Audits of financial statements for periods ending on or after December 15, 2017, and
  - Reviews of interim financial information for interim periods beginning after fiscal years ending on or after December 15, 2017
- Primary objective is to consider the accounting provisions of FASB Update 2014-15 & GASB 56
  - What is the auditor’s responsibility?
AICPA SAS No. 132 – Going Concern

- Significant changes include:
  - Auditor’s Objectives and Related Conclusions
    - Clarifies that the auditor’s objectives include separate determinations and conclusions with respect to:
      - The appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements; and
      - Whether substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time exists, based on the audit evidence obtained.
AICPA SSAE 18

- New Attestation Standards
  - SSAE No. 18, *Attestation Standards: Clarification and Recodification* (April 2016)
    - The “clarity project” for attestation standards!
    - Establishes requirements for performing and reporting on examinations, reviews, and agreed-upon procedures
- Effective Date
  - Practitioners’ reports dated on or after May 1, 2017
Other Emerging Issues
Proposal issued on March 1, 2017

- Improves investor protection and enhances transparency in municipal securities market
  - Addresses concern about private bank lending
- Comments due by May 15, 2017
- 111 pages in length!
- Effective date: three months after adoption

Adds two new event notices under continuing disclosure undertakings

- Currently there are 14 listed events
- Requires notice within 10 days of the occurrence
Two new events are:

- Incurrence of a financial obligation of the issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect security holders, if material

- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer of obligated person, any of which reflect financial difficulties
“Financial Obligation” is defined as:

- A debt obligation,
- Lease,
- Guarantee,
- Derivative instrument, or
- Monetary obligation resulting from a judicial, administrative, or arbitration proceeding.
Municipal Disclosures – SEC Proposes Amendments to Rule 15c2-12

- What should be disclosed?
  - A description of the material terms of the financial obligation, including:
    - Date of incurrence
    - Principal amount
    - Maturity and amortization
    - Interest rate (or method of computation of the interest rate)
    - Default rates
Municipal Disclosures – Material Events

- Just a reminder - the current 14 material events:
  - Principal and interest payment delinquencies
  - Non-payment related defaults
  - Unscheduled draws on debt service reserves reflecting financial stress
  - Unscheduled draws on credit enhancements reflecting financial stress
  - Substitution of credit or liquidity providers, or their failure to perform
  - Adverse tax opinions or events affecting the tax-exempt status
  - Modifications to rights of security holders
  - Bond calls and tender offers
  - Defeasances
  - Release, substitution or sale of property securing security repayment
  - Rating changes
  - Bankruptcy, insolvency or receivership
  - Merger, acquisition or sale of all issuer assets
  - Appointment of successor trustee
FASB Releases New NFP Accounting Guidance

- FASB issued an Accounting Standards Update (ASU) on August 18, 2016 (Topic 958)
  - First major change to NFP financial reporting since FASB 117 (1993)
  - Key issues addressed:
    - Complexity of net asset classifications
      - Replaces the existing three classes of net assets with two new classes that focus on donor restrictions
    - Deficiencies in information about liquidity and availability of resources
    - Lack of consistency on expenses and investment return
    - Enhance the utility of the statement of cash flows
- Visit FASB’s website here for more
Pension Plan Discount Rate Assumptions

- Most states still use 7.5 to 8%:
  - Is this realistic?
  - Calpers (the largest public fund):
    - Current assumption 7%
    - Actual results:
      - 6.6% in 2016
      - 6.9% last three years
      - 5.1% last ten years
      - 7% last 20 years

- Are plans taking on more risk to achieve targets? Too much risk?
- What responsibility does the auditor have?
Alternatives to Public Financing: Bank Loans and Direct Purchases

- **SEC**
  - Increasingly concerned about increased activity and lack of disclosure
    - Private placement - $24 billion in 2014

- **MSRB, FINRA**
  - Firms must assess whether a financing instrument is a security or a loan
    - Many “notes” (loans) should be securities?
    - [www.msrb.org](http://www.msrb.org)

- **GASB**
  - Current research activity
    - Debt Disclosures, including Direct Borrowing - Reexamination of Statements 34, 38, and 62
Questions or Comments?

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Meet the Speaker

Ted Williamson, CPA
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 which fundamentally changed accounting for pensions

- GASB Statement No. 74 and 75 restore parallel treatment for pension and OPEB financial reporting
GASB Statement No. 74
Title: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective Date: Fiscal years beginning after June 15, 2016
GASB Statement No. 74

- 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—are required
- Additionally, notes and RSI similar to GASB Statement No. 67 are required
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
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 and sensitivity analysis
- 10 years of select information in RSI, as it becomes available
GASB Statement No. 75
GASB Statement No. 75

- **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
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
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

- Single discount rate incorporating:
  - Long-term expected rate of return on plan investments
  - Tax-exempt, high quality municipal bond rate

- Single actuarial method
  - Entry age
  - Level percentage of pay
As with the net pension liability under GASB Statement No. 68:

- Certain components of the change in the OPEB liability are charged directly to pension expense in the year they occur.
- Remaining components are reported as deferred inflows and outflows and amortized.
Expense vs. Deferred Inflows/Outflows

<table>
<thead>
<tr>
<th>Changes in Net OPEB Liability</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
- Measurement date and valuation date
- Components of net OPEB liability and related ratios
- Significant assumptions and other inputs used to calculate the total OPEB liability
- Sensitivity analysis: discount and healthcare cost trend rates
- 10 years of select information in RSI, as it available
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
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.
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.
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
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. 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

- Must consider a transaction’s substance, not its form or title, when determining applicability
Are TIF arrangements included?

- Implementation Guide No. 2016-1, Question 4.77:

  - Q—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?

  - A—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.
Are TIF arrangements included?

- Implementation Guide No. 2017-1, Question 4.40:

  - Q—A local government enters into an agreement with a real estate developer for the purpose of stimulating economic growth. Under the terms of the agreement, (a) the developer will construct a building; (b) a baseline for property tax revenues for the specific geographic area in which the building will be constructed will be established prior to the start of the project; and (c) the developer will receive an amount from the additional property tax revenues above the baseline, based on certain costs incurred by the developer related only to the developer’s building. Does this agreement meet the definition of a tax abatement in Statement 77?

  - A—Yes. Unlike the transaction described in Question 4.77 in Implementation Guide 2016-1, this agreement meets the definition of a tax abatement in Statement 77, although both may be labeled as a tax increment financing. The developer is promising to take the specific action of constructing a building for purposes of economic development, and the government is forgoing tax revenues to which it is otherwise entitled by providing some or all of the additional property tax revenues above the baseline to the developer. Although many tax abatements directly reduce the amount of taxes paid and do not involve the actual collection and return of taxes, the mechanism used to conduct the transaction is not relevant to determining whether a transaction meets the definition of an abatement. Therefore, the fact that the developer pays property taxes and subsequently receives amounts from the government related to the additional property tax revenues means that the government did, in substance, forgo tax revenues.
Note Disclosures

- 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.
- 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.
Note Disclosures

- **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
Note Disclosures

- The gross (accrual basis) amount by which the government’s tax revenues were reduced as a result of the agreements

- If government makes commitments (other than tax reduction) as part of agreement:
  - Type of commitment made
  - Most significant individual commitments made
Note Disclosures

- 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.
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 criteria for external investment pools (and the governments that invest in them) to qualify for reporting these investments at amortized cost instead of fair value.

- Establishes additional note disclosure requirements for governments that participate in qualifying pools. These required disclosures include information about limitations or restrictions on participant withdrawals.
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
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 gift annuities and charitable remainder trusts.

Most common in the university or hospital environment.
GASB Statement No. 83
GASB Statement No. 83

- Title: Certain Asset Retirement Obligations
- Effective Date: For reporting periods beginning after June 15, 2018
An **asset retirement obligation** is a legally enforceable liability associated with the retirement of a tangible capital asset.

Statement No. 83 requires an asset retirement obligation to be recorded when the liability is both incurred and reasonably estimable.

- Based on laws/ regulations/ contracts in combination with an obligating event by the government.
A liability and a deferred outflow are recorded based on the best estimate of the current value of outlays expected to be incurred.

The deferred outflow is amortized to expense in a systematic and rational manner over the estimated useful life of the capital asset.
GASB Statement No. 84
GASB Statement No. 84

- Title: Fiduciary Activities
- Effective Date: For reporting periods beginning after December 15, 2018
Fiduciary Activities

- 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 or from grants received by the government (other than pass-through grants for which the government has no administrative involvement), 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 and are not derived from the government’s provision of goods and services to those individuals.
- The assets are to be provided to organizations that are not part of reporting entity.
Other Fiduciary Activities

- Pension and OPEB plans administered through qualified trusts, assuming that the government controls the assets of the arrangement
- 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
GASB Statement No. 85
GASB Statement No. 85

- **Title:** Omnibus 2017
- **Effective Date:** For reporting periods beginning after June 15, 2017
- **Contains fixes or small modifications on a number of topics that did not each warrant their own Statement**
Topics Addressed

- **Blended Component Units:** Governments utilizing the BTA model may blend a component unit only if the criteria in GASB 14, paragraph 53 are met.
  - Criteria relate to the governing bodies of the two entities being substantially the same, or the component unit providing services almost entirely to the primary government.

- **Goodwill:** Addresses accounting for goodwill from transactions prior to GASB 69; results in this goodwill being moved to a deferred outflow and amortized.
Topics Addressed

- **Fair Value Measurement:**
  - Each unit of account of real estate used in operations by insurance entities should be classified as an investment or capital asset based on definition of an investment in GASB 72, paragraph 64
  - Money market investments and participating interest-earning contracts described in GASB 72, paragraph 69c may be measured at amortized cost to the extent permitted by GASB 31, paragraph 9

- Pensions and OPEB
Pensions and OPEB

- Governmental funds should measure liabilities and expenses associated with pensions and OPEB for the current reporting period (as opposed to the government-wide statements and proprietary funds, which may be based on a measurement date up to 12 months in advance of the balance sheet date).

- Statement No. 85 also addresses timing and measurement of on-behalf payments in employer financial statements.
Use of covered payroll vs. covered-employee payroll for RSI disclosures:

- Plan financial statements use covered payroll
- Employer financial statements use covered payroll if contributions based on a measure of pay; otherwise, use covered-employee payroll

Employer-paid member contributions should be classified as employee contributions, similar to Statement No. 82 requirement for pensions
Statement No. 85 contains various amendments to the alternative measurement for measuring OPEB permitted for small employers by Statements No. 74 and 75.

For governments participating in multi-employer plans containing governments and nongovernments, alternative guidance is provided similar to Statement No. 78 for pensions.
Exposure Draft, *Leases*
Exposure Draft

- Issued: January 2016
- Estimated Issuance of Final Statement: Second quarter of 2017
- Establishes a single approach to accounting for leases that will eliminate the current operating and capital lease classifications
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.
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
- Lease liability reduced as payments are made
- Interest is accrued on lease liability
- Intangible asset amortized to expense over shorter of the life of the underlying asset or the lease term
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
- Receivable is reduced as payments are received
- Interest is earned on lease receivable
- Deferred inflow is amortized to revenue over the life of the 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 principal and interest payments to be made or received in each of the five subsequent years and in five-year increments thereafter
Invitation to Comment, *Financial Reporting Model Improvements – Governmental Funds*
Invitation to Comment

- Issued: December 2016

- Addresses issues related to financial reporting model reexamination, including:
  - Measurement focus and basis of accounting for governmental funds
  - Presentation of governmental fund financial statements

- Sets forth three possible recognition approaches for governmental funds:
  - Near-term financial resources approach
  - Short-term financial resources approach
  - Long-term financial resources approach
Implementation Guides
Implementation Guides

- Implementation Guide No. 2017-1, Implementation Guidance Update
- Both implementation guides issued in April 2017
Projects On GASB’s Agenda
Projects on GASB’s Agenda

- Financial Reporting Model
- Revenue and Expense Recognition
- Capitalization of Interest Cost
- Certain Debt Extinguishment Issues
- Debt Disclosures—including Direct Borrowing
- Equity Interest Ownership Issues