GASB Updates

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Governmental Accounting Standards Board (GASB) Updates

About the Presenter

- Ernst & Young LLP | Assurance | Manager
- Learning Coordinator, Instructor
- EY Audit Quality Champion
- EY Data Analytics Champion
- Industries include Government, Telecommunications, Oil and Gas and Hospitality Clients
- Interesting Fact: Recent had a newborn September 1!

Agenda

- GASB Statement No. 69 Government Combinations and Disposals of Government Operations
- GASB Statement No. 72 Fair Value Measurement and Application
- GASB Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68
- GASB Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments
- GASB Statement No. 77 Tax Abatement Disclosures
- GASB Statement No. 80 Blending Requirements for Certain Component Units
- Resources Reminder

9/9/2016

Governmental Accounting Standards Board (GASB) Statement No. 69

Government Combinations and Disposals of Government Operations

GASB 69 – Who is affected by this statement?

- All state and local governmental entities either initially or in the future when events covered by this statement occur.

GASB 69 – Major Provisions

- Guidance relating to measurement, accounting and financial reporting of government combinations as well as disposals
- Allows the users to assess the nature and effect of such transactions
- Guidance for transfers of operations that do not constitute entirely legally separate entities and in which no significant consideration is exchanged

Government Combinations

- Meets the definition of a government merger, acquisition, or transfer of operations.
- Meets service continuation requirements provided in GASB 69.
- Transfer of operations include:
  - Shared service arrangements
  - Reorganizations
  - Redistricting
  - Annexations
  - Arrangements in which an operation is transferred to a new government created to provide those services

Government Mergers

- Government merger. A government combination of legally separate entities in which no significant consideration is exchanged, and either
  - Two or more governments cease to exist as legally separate entities and are combined to form one or more new governments, or
  - One or more legally separate governments or nongovernmental entities cease to exist and their operations are absorbed into, and provided by, one or more continuing governments.
- The assets and liabilities in a government merger are measured using their carrying values.

Government Acquisition

- A government combination in which a government acquires another entity, or the operations of another entity, in exchange for significant consideration.
- Consideration provided should be significant.
- The acquired entity or operation becomes part of the acquiring government's legally separate entity.
- Assets acquired and liabilities assumed are measured generally based upon their acquisition values.
  - Certain assets and liabilities, for example pension and other postemployment benefit obligations, compensated absences, and pollution remediation obligations are measured at their values determined using guidance in GASB literature.

Transfer of Operations

- A government combination involving the operations of a government or nongovernmental entity, rather than a combination of legally separate entities
- No significant consideration is exchanged.
- Operations may be transferred to another existing entity or to a new entity.
- Assets and liabilities acquired or given up in a transfer of operations are measured at carrying values.

Disposal of Government Operations

- Results in the removal of specific activities of a government
- Recognition of any resulting gain or loss
- Gain or loss should not include adjustments and costs associated with the normal operating activities of the operation up to the measurement date.
- Gains or losses recognized as a special item.
- In the governmental fund level statements, the disposal is also recognized as a special item. GASB Statement No. 69 provides additional accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

Effective Date

- Financial reporting periods beginning after December 15, 2013
- Applied on a prospective basis. Therefore no specific implementation issues

Governmental Accounting Standards Board (GASB) Statement No. 72

Fair Value Measurement and Application

Agenda

- Introduction to GASB Statement No. 72
- Valuation techniques and expectations
- Valuation governance and internal control framework
- GASB Statement No. 72 implementation
- Q&A

Objectives

- Discuss GASB Statement No. 72
- Identify valuation techniques and expectations
- Recognize valuation governance and internal control framework
- Recognize GASB Statement No. 72 implementation challenges

Introduction to GASB Statement No. 72

GASB Statement No. 72 – introduction

The Government Accounting Standards Board (GASB) released Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The requirements are effective for financial statements for periods beginning after 15 June 2015 and aim to:

- Enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition of fair value and accepted valuation techniques
- Enhance fair value application guidance and related disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position

GASB 72 – scope

- GASB 72 defines an investment as a security or other asset that:
  - A government holds primarily for the purpose of income or profit.
  - Has present service capacity based solely on its ability to generate cash or to be sold to generate cash.
- The designation of an "investment" is made at acquisition and cannot be re-designated even if usage changes over time.
  - Example: If an asset is initially reported as a capital asset and is later designated as held for sale, the asset would not be reclassified as an investment.
- This Statement requires fair value measurement for certain financial ***investments*** that were not previously measured at fair value. However, it does not expand scope to other assets or liabilities not previously measured at fair value.

GASB 72 – scope (cont.)

The following investments will require fair value measurement:

- Equity securities (including unit investment trusts and closed-end mutual funds), stock warrants and stock rights that do not have readily determinable fair values
- Debt securities reported as assets
- Alternative investments reported by endowments
- Commingled investment pools that are not government sponsored
- Invested securities lending collateral
- Real estate meeting the definition of an investment asset
- Securitized debt obligations
- ► Life settlement contracts (when there is no insurable interest, the purpose of the instrument is solely to generate cash and should be measured at fair value)
- ► Intangible assets meeting the proposed definition of investments
- ► Land and land rights, including oil and gas properties, classified as investments

GASB 72 – scope (cont.)

Out of scope:

- ► Money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less and are held by governments other than external investment pools
- ► Investments held by 2a7-like external investment pools
- ► Investments in nonparticipating interest-earning investment contracts
- ► Others including but not limited to:
  - ► Investments in life insurance contracts
  - ► Common stock meeting the criteria for applying the equity method
  - ► Investments in unallocated insurance contracts
  - ► Synthetic guaranteed investment contracts that are fully benefit responsive

The following are required to be measured at acquisition value:

- ► Donated capital assets
- ► Donated works of art
- ► Capital assets received in a service concession arrangement

GASB 72 – general principles: Definition of fair value

GASB current	► The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale
GASB 72	► Fair value is 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

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- Fair value is a market-based measurement, not an entity-specific measurement
- Fair value is an exit price, not an entry price
- To determine, fair value, consider unit of account and characteristics of the asset or liability
- Fair value is not to be adjusted for transaction costs

GASB 72 – general principles: principal market

Fair value assumes the transaction occurs in the government's principal market for the asset or liability

- The principal market is the market with the greatest volume and level of activity that can be accessed by the government entity
- The market in which the government entity normally transacts is presumed to be the principal market (unless contrary evidence exists)

In the absence of a principal market, the government's most advantageous market is used

- This is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability

GASB 72 – general principles: market participants

- Market participants are buyers and sellers in the principal (or most advantageous) market with the following characteristics:
  - Independent of the reporting entity
  - Knowledgeable, using all available information
  - Able to enter into a transaction for an asset or liability
  - Willing to enter into a transaction for the asset or liability (not forced)
- Fair value is based on the assumptions that market participants would use in pricing the asset or liability, assuming they act in their best economic interest

GASB 72 – fair value hierarchy

Level	Characteristic	Example
Level 1	Quoted prices in active markets for identical assets/liabilities. Generally prices are unadjusted	▸ Equity securities traded on the NYSE ▸ Exchange-traded derivatives
Level 2	Other observable inputs – including quoted prices (for similar assets/liabilities) which can be adjusted with market-corroborated inputs (such as discounts for liquidity/credit)	▸ Over-the-counter derivative with value based on observable London Interbank Offered Rate (LIBOR) forward interest rate curves
Level 3	Unobservable inputs – government's own assumptions about market participant assumptions, including assumptions about risk, developed based on the best information available under the circumstances; may include the government's own data; discounts for liquidity can be applied	▸ Private equity investments ▸ Long-dated financial instruments

- Assessing the significance of inputs and where they fit on the hierarchy level may require judgment

* Investments measured at net asset value (NAV) would be excluded from the fair value hierarchy

GASB 72 – investments in certain entities that calculate the NAV per share

- GASB 72 allows for the use of net asset value (NAV) per share as a practical expedient to calculate fair value for certain investments that do not have readily determinable fair values
- This method of determining fair value is permitted if the NAV per share is calculated as of the measurement date generally in a manner consistent with FASB's measurement principles of investment companies
- NAV practical expedient method should not be applied to determine fair value if it is probable that the investment will be sold for an amount that is different from the NAV per share
- Investments measured at NAV would be excluded from the fair value hierarchy

GASB 72 – disclosures

Expanded disclosure is required, including disclosures for

- Fair value measurement
- The fair value hierarchy levels
- Valuation techniques

Disclosures should be organized by type of asset and liability reported at fair value

- Determine the level of detail and disaggregation
- Determine how much emphasis to place on each disclosure requirement

Additional disclosures regarding investments in certain entities that calculate NAV per share (or its equivalent)

GASB current

Current GASB standards require the following fair value measurement disclosures

- Methods and significant assumptions used to estimate the fair value of investments, if based on other than quoted prices
- Disclosure of credit risk, custodial credit risk and interest rate risk*

GASB 72

The following disclosures are required for recurring and nonrecurring fair value measurements:

- Fair value at the end of the reporting period
- Level of fair value hierarchy, excluding any investments measured at NAV (Level 1, 2, or 3)
- A description of the valuation techniques used
- The changes and the reason for making significant change in valuation technique

For nonrecurring measurements, disclosure of the reason for the measurement

The level of detail and disaggregation, and how much emphasis to place on each disclosure requirement, should take into account the following considerations:

- Nature, characteristics and risks of the asset or liability
- Level of the fair value hierarchy within which the fair value measurement is categorized
- Objective or the mission of the government
- Characteristics of the government
- Relative significance of assets and liabilities
- Whether separately issued financial statements are available
- Line items presented in the statement of net position
- Whether this Statement or another Statement specifies a type for an asset or a liability

*** These disclosures are not directly related to fair value measurement**

GASB 72

Additional disclosure for fair value measurements of investments in certain entities that calculate the net asset value (NAV) per share (or its equivalent).

The following should be disclosed for each type of investments measured using NAV:

- The fair value measurement of the investment type at the measurement date and a description of the significant investment strategies of the investee(s) in that type
- For investments that can never be redeemed, the government's estimate of the period over which the underlying assets are expected to be liquidated by the investees
- Amount of unfunded commitments
- General description of the redemption terms and conditions (e.g. quarterly redemption with 60 days' notice)
- Circumstances in which an otherwise redeemable investment in the type (or a portion thereof) might not be redeemable (e.g. redemption restrictions such as lockup or gate)
- For the restricted redemptions, the estimate of the length of the restriction period; if an estimate cannot be made, disclose the fact and how long the restriction has been in effect
- Any other significant restrictions on the ability to sell investments in the type at the measurement date
- Fair value of investments where it is probable that the sale amount is different from NAV per share and any remaining actions required to complete the sale
- If a sale is planned but not all assets have been identified, the government's plans to sell and any remaining actions required to complete the sale

Valuation techniques and expectations

Valuation techniques and approaches

- Income approach
  - Discounted cash flow (DCF) Method – focuses on the income-producing capability of the business enterprise by incorporating the specific operating characteristics of the company in a prospective analysis. Additionally, an assessment is made of an appropriate risk-adjusted discount rate to apply to estimates of cash flow.
- Market approach
  - Guideline public company method (GPCM) – focuses on comparing the company's risk profile and growth prospects to select reasonably similar (or guideline) publicly traded companies (Guideline Companies).
  - Guideline transactions method (GTM) – consideration is given to prices paid in recent transactions that have occurred in the company's industry or in related industries.
- Alternative approaches
  - NAV – practical expedient
  - Replacement cost

Valuation techniques and approaches (cont.)

- Distinction between fair value of enterprise and fair value of preferred & common stock:
  - First, value the enterprise
  - Second, use enterprise value as basis for valuing securities
- Applicability of a valuation methodology depends on enterprise stage of development, among other factors
- Use one valuation methodology to corroborate another consideration of all relevant approaches
- Use appropriate valuation techniques for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs

Valuation techniques and approaches (cont.)

- Valuation techniques should be applied consistently from period to period, but a change in a valuation technique is appropriate if the following occur:
  - New markets develop
  - New information becomes available
  - Information previously used is no longer available
  - Valuation techniques improve
  - Market conditions change
- A revision resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate

Documentation/support	
Background information	**Support for assumptions**
▸ Company performance ▸ Industry performance ▸ Milestones ▸ Solvency/liquidity issues ▸ Investment background	▸ Stand alone documentation ▸ Selection and support of assumptions ▸ Source of data ▸ Review/critique of estimated financial information

Methodology	
Selection of methodology	**Implementation of methodology**
▸ Consistency with acquisition model ▸ Use of multiple valuation approaches ▸ Reference to recent transactions ▸ Adapt methodology to instruments/businesses being valued/exit market	▸ Consideration of estimates ▸ Appropriateness of multiples or comparable used ▸ Marketability and minority/control considerations ▸ Allocation of value to equity classes ▸ Yield analysis for debt instruments ▸ Sensitivity analysis

Inputs to valuation techniques – vendor pricing

Fair value measurements or pricing inputs from third party services (Bloomberg, Totem, FT Interactive Data, Reuters) are subject to the same analysis and internal control considerations as fair value measurements or pricing developed internally

For internally developed and external pricing:

- Obtain an understanding and ascertain the appropriateness of the valuation techniques used in the fair value determination or in the development of the pricing inputs
- Analyze all inputs used in the valuation technique relative to the fair value hierarchy
- Incorporate current information that reflects orderly transactions or valuation technique that reflects market participant assumptions (including risk assumptions)

Inputs to valuation techniques – adjustments

- Market risk premiums or discounts for transactions that are not orderly
- Level 2 or 3 fair value measurements may consider other premiums and discounts that market participants would consider in pricing the asset or liability (considering the unit of account for the item being measured)
  - In the absence of explicit unit of account guidance, reasonable market participant based assumptions should be used for such adjustments (e.g., control premiums)
  - May create challenges in differentiating lack of marketability discounts from other discounts that reflect the size of an entity's holding (e.g., concentration reserves)
  - Liquidity adjustments that would affect any size holdings should be considered as long as the adjustment is applicable to the appropriate unit of account
- Blockage discounts are prohibited

Other measurement principles

Nonfinancial assets
- Highest and best use
- Current use is presumed to be highest and best use unless market or other factors suggest otherwise

No portfolio exception exists
- Even though a portfolio of derivative instruments is managed on a net basis, there is no offsetting of the long and short positions
- Must base fair value measurements on their separate units of account

Application to liabilities
- Absent a quoted price, exit price should be determined from the perspective of a market participant that holds the identical asset
- Measurement should not consider restrictions that would prevent the liability from being transferred as such restrictions are included in other inputs used in valuing the liability
- Non-performance risk (i.e., default risk) should be reflected in the fair value measurement

Valuation governance and internal control framework

Use of third party pricing service providers

- The use of third party pricing service providers may not relieve senior management of oversight responsibility to ensure appropriate fair values are recorded in the financial statements
- Management should have a due diligence process by which it assesses third party pricing services that it uses for fair value measurements
  - Management should have sufficient basis upon which to determine the appropriateness of the techniques used, the underlying assumptions, selection of inputs and the consistency of application
- This may require management to implement processes to better understand how third party providers produce valuations, source data, etc.

Valuation internal control framework – key principles

A sound valuation internal control framework comprises of:

- Governance and controls
  - Strong governance processes around the production and review of fair value measurements
  - Independent verification and validation processes
  - Allocation of sufficient governance resources to the valuation process
- Risk management and reporting for valuation
  - Consistency in valuation practices for risk management and reporting purposes
  - Use of reliable inputs and diverse information sources
  - Articulation and communication of valuation uncertainty within the organization and to external stakeholders

Valuation internal control framework – key elements of a target operating model

- Clear governance and controls including assigned roles and responsibilities around the production and review of valuations
- A senior governance body such as a Valuation Risk Committee provides direction on both the valuation and valuation review practices
- Maintenance of valuation governance policies and procedures
- Independent valuation review, challenge and escalation
- Monitoring and reporting of valuation risks
- Reliable and timely data flows
- Defined documentation and retention protocols
- Model risk assessment and management

Board	Pricing/valuation review committee		Senior management
Tone at the top ► Greater focus on understanding valuation processes, methodology and governance **Allocation of ownership/ responsibilities/ governance structure** ► Determines ownership (accountability) within the valuation governance framework ► Governance framework to address valuation and price validation issues **Price monitoring** ► Periodic review of price monitoring results, focusing on price variances on high risk assets	**Delegated authority for pricing and valuation process, including:** ► Establishing guidelines for pricing of all assets and liabilities ► Overseeing pricing, independent valuation, fair value (FV) levelling ► Understanding pricing considerations, market events and implications **Policies and procedure approval** ► Confirms policies and procedures are documented and followed ► Use of models ► Use of vendor pricing/services ► Price validation requirements ► Change, override and escalation processes **Defines structure for valuation escalation and reporting** ► Formal structure for escalation of valuation issues and clear documentation of approvals related to issue resolution ► Review of independent price verification results and exception approvals	**Review/oversight of valuation** ► Ongoing oversight of the valuation processes, resolving pricing issues and ultimately approving pricing decisions: ► Approval of pricing ► Reviews internal valuation practices and methodologies ► Approval of overrides ► Reviews documentation of Front Office/Custodian/ Investment Manager overrides of prices from the standard processes ► Resolution of pricing disputes/variances ► Maintains authority on resolving all pricing disputes and provides pricing strategy ► Develops documented policy for resolving pricing disputes ► Review of market events ► Discusses current market trends that could affect existing valuation practices ► Implications on liquidity/observability of prices ► Consideration of products/markets for further review and assessment	► Set the standards for a controlled environment for valuation production and review ► Responsible for valuation policy and procedures documentation to: ► Ensure significant unobservable inputs used are appropriate ► Ensure that inputs are tested against independently sourced information and review the valuation approach(es) and results ► Ensure timely valuation reporting to Board and risk committees ► Ensure that each investment is properly booked, valued and accounted for ► Review inventory leveling and movement based on market observations and GASB 72 requirements

Valuation governance – independent price verification (IPV)

- This covers all external prices, market quotes, historical prices and pricing parameters used in the valuation of investments
- IPV involves obtaining independent market data from a reliable source or using other methods or analytical approaches to verify prices used
- If a particular investment is unable to be price tested, additional level of control must be established to ensure pricing is handled in an appropriate manner; the pricing process must be reviewed for consistency across periods
- Any changes to price testing methodology or inputs should be approved by the senior valuation managers or valuation risk committees
- Following an IPV, valuation risk managers need to make adjustments with respect to material price testing impacts, whether positive or negative
- Valuation risk managers will re-mark the relevant investment within the appropriate system, as applicable

GASB 72 implementation

Implementation considerations

- The requirements of this standard are effective for financial statements for periods beginning after 15 June 2015. Earlier application is encouraged.
- Changes made to comply with this statement should be treated as an adjustment of prior periods and financial statements presented for the periods affected should be restated.
- If restatement of prior period financial statements is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning net position for the earliest period restated.
  - The reason for not restating prior periods presented should also be explained
- The notes to the financial statements should disclose the nature of any restatement and its effect.

Key implementation challenges

- Implementation challenges are directly related to the types of investments held and availability of pricing information for those investments
  - Need to pay more attention to complex/difficult-to-value investments
- Processes and procedures need to be implemented within the government's internal governance structure to assess the appropriateness of the valuation techniques and underlying assumptions used by third party pricing service providers
- Need to consider what additional investments may be subject to fair value measurement and if existing internal controls are sufficient
- Additional time and resources required to understand the valuation processes and to prepare the financial statement note disclosures
- Need to assess the adequacy of current information systems in providing the information required for the new disclosures and if any valuation specialists may be needed

Governmental Accounting Standards Board (GASB) Statement No. 73

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

GASB 73 – Who is affected by this statement?

- Applies to any state or local government providing defined benefit pensions to employees that are not within the scope of GASB Statement No. 68 and or any government holding assets accumulated for purposes of providing pensions through defined benefit pension plans not administered through trusts.
- Governments subject to the requirements of GASB Statement No. 68 are also affected by this statement.

9/9/2016

GASB 73 – Major Provisions

- Guidance in statement 73 similar to that in GASB Statement No. 68
- Guidance on assets accumulated for purposes of providing pensions through Defined Benefit Plans that are not administered through trusts
- Amendments to GASB Statements 67 and 68

Assets Accumulated for Purposes of Providing Pensions through Defined Benefit Plans That Are Not Administered through Trusts

- Governments should report assets in an agency fund.
- A liability to participating employers or nonemployer contributing entities should be recognized when these assets exceed the liabilities for:
  - benefits due to plan members, and
  - accrued investment and administrative expenses.

Amendments to GASB 67 and 68

- Clarifies certain issues arising from the implementation. Briefly, these changes are:
  - Information about investment-related factors significantly affecting trends in the amounts reported in notes to the schedules of required supplementary information should be limited to factors the pension plan or the participating governments can influence.
  - Information in the contribution-related schedules of required supplementary information should exclude any amounts associated with
    - payables to the plan arising in a prior fiscal year, and
    - separately financed specific liabilities* of the individual employer or nonemployer contributing entity, as applicable, to the pension plan.
  - Revenue for the support of a nonemployer contributing entity that is not in a special funding situation should be recognized in the reporting period in which such contribution is reported as a change in the net pension liability or collective pension liability. This requirement relates to amounts reported in financial statements using the economic resources measurement focus and accrual basis of accounting. .

Effective Date

- Financial statements for periods beginning after June 15, 2016
- requirements addressing financial reporting of assets accumulated for purposes of providing these pensions are effective for periods beginning after June 15, 2015
- Applied on a restrospectively

Governmental Accounting Standards Board (GASB) Statement No. 76

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

GASB 76 – Who is affected by this statement?

- Applies to any state or local government preparing financial statements in accordance with GAAP.

9/9/2016

Page 53 Governmental Accounting Standards Board (GASB) Updates

GASB 76 – Major Provisions

- Establishes the priority of pronouncements and other sources of accounting and financial reporting guidance a state or local governmental entity should apply.
  - Category A
  - Category B

Page 54 Governmental Accounting Standards Board (GASB) Updates

Category A

- Officially established accounting principles (GASB statements and previously issued and currently effective interpretations)

Category B

- GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by the GASB

Not within either categories

- Governments should consider the following—in order
  - Accounting principles for similar transactions and or other events within Category A or Category B
    - This should not be done if such accounting principles
      - prohibit the application of the accounting treatment to the particular transactions and or other event, or
      - indicate the accounting treatment should not be applied by analogy.

Not within either categories, continued

Nonauthoritative accounting literature that does not conflict with or contradict authoritative GAAP, including

- GASB Concepts Statements
- pronouncements and other literature of the
  - Financial Accounting Standards Board
  - Federal Accounting Standards Advisory Board
  - International Public Sector Accounting Standards Board
  - International Accounting Standards Board
  - AICPA literature not cleared by the GASB
  - 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.

Effective Date

- Effective for financial statements for periods beginning after June 15, 2015

Governmental Accounting Standards Board (GASB) Statement No. 77

Tax Abatement Disclosures

GASB 77 – Who is affected by this statement?

- Applies to any state or local government involved in tax abatement agreements they have entered into or that other governments have entered into that reduce the reporting government's tax revenues

9/9/2016

GASB 77 – Major Provisions

- Provide FS users with the nature and magnitude of the reduction in tax revenues through tax abatement programs
- Substance of the transaction over form

Tax abatement programs

- A reduction in tax revenues that results from an agreement between one or more governmental entities and an individual or entity in which 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 governments or the citizens of those governments.

Disclosures

- Disclosures required of both
  - agreements entered into by the reporting government
  - other governments that reduce the reporting government’s tax revenues
- Disclosures distinguish between
  - general disclosure principles
  - disclosure requirements

General Disclosure Principles

- Should distinguish between
  - agreements that are entered into by the reporting government, and
  - agreements entered into by other governments that reduce the reporting government's tax revenues.
- May be provided individually or may be aggregated.
- Disclosure information for tax abatements resulting from agreements entered into by the reporting government should be organized by
  - each major tax abatement program,
  - government entering into the tax abatement agreement, and
  - specific tax being abated.
- Disclosure should commence in the period in which a tax abatement agreement is entered into and continue until the agreement expires.

Disclosure Requirements

- Name and purpose of the tax abatement program(s), and the specific taxes being abated
- Authority under which tax abatement agreements are entered into
- Criteria that make a recipient eligible to receive a tax abatement
- Mechanism by which the taxes are abated, including
  - how the tax abatement recipient's taxes are reduced, such as through a reduction of assessed value or a refund of taxes paid
  - how the amount of the tax abatement is determined, such as a specific dollar amount or a specific percentage of taxes owed

Disclosure Requirements, continued

- Provisions for recapturing abated taxes, if any, including the conditions under which abated taxes become eligible for recapture
- For tax abatement agreements entered into by the reporting government, the types of commitments made by the recipients of the tax abatements
- Gross dollar amount, on an accrual basis, by which the reporting government's tax revenues were reduced during the reporting period as a result of tax abatement agreements

Disclosure Requirements, continued

- For any amounts received or receivable from other governments in association with forgone tax revenue the
  - Names of the governments
  - Authority under which the amounts were or will be paid
  - Dollar amount received or receivable from other governments
  - Description of any types of commitments other than to reduce taxes made by the reporting government in the tax abatement agreements
  - Description of the most significant individual commitments, other than to reduce taxes, made by the reporting government in tax abatement agreements. Information about a commitment other than to reduce taxes should be disclosed until the reporting government has fulfilled the commitment
  - For tax abatement agreements disclosed individually a brief description of the quantitative threshold the government used to determine which agreements to disclose individually
  - When information required to be disclosed by this statement is omitted because it is legally prohibited from being disclosed, the government should describe the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

Disclosure Requirements, continued

- For agreements entered into by other governments that reduce the reporting government's tax revenues.
  - Brief descriptive information including names of governments entering into the agreements and the specific taxes being abated.
  - Gross dollar amount, on an accrual basis, by which tax revenues were reduced during the reporting period as a result of tax abatement agreements.
  - For any amounts received or receivable from other governments in association with forgone tax revenue the
    - Names of the governments
    - Authority under which the amounts were or will be paid
    - Dollar amount received or receivable from other governments
  - For tax abatement agreements disclosed individually, a brief description of the quantitative threshold the government used to determine which agreements to disclose individually
  - When information required to be disclosed by this statement is omitted because it is legally prohibited from being disclosed, the government should describe the general nature of the tax abatement information omitted and the specific source of the legal prohibition.

Effective Date

- Effective for financial statements for periods beginning after December 15, 2015
- Applies to notes to financial statements for all periods presented
- If not disclosed for prior periods due to practicality, reason for disclosure should be disclosed

Implementation Issues

- Identifying all tax abatement agreements for disclosures, especially those entered into by other governments
- Reading through these agreements to find and accumulate all necessary information for disclosure

Governmental Accounting Standards Board (GASB) Statement No. 80

Blending Requirements for Certain Component Units

GASB 80 – Who is affected by this statement?

- Component units organized as not-for-profit corporations
- The primary government is the sole corporate member.
- Does not apply to component units pursuant to the provisions of GASB Statement No. 39, Determining Whether Certain Organizations are Component Units.

GASB 80 – Major Provisions

- The statement provides that a component unit should be included in the reporting entity's financial statements as a blended component unit if the primary government is identified in the component unit's articles of incorporation or bylaws as the sole corporate member.
- State and local governments will need to review their records to determine if all applicable blended component units are properly identified.

Effective Date

- Effective for financial statements for periods beginning after June 15, 2016

Questions

Thank you for participating!