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GAAP Update

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Dave Yost
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Presented by: LGS

GASB Pronouncements

- GASB Statement No. 72, "Fair Value Measurement and Application"
- GASB Statement No. 77, "Tax Abatement Disclosures"
- GASB Statement No. 82, "Pension Issues An Amendment of GASB Statements No. 67, No. 68 and No. 73."



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GASB 72

- Fair Value Measurement and Application
- Effective for financial statement periods beginning after June 15, 2015.



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GASB 72

- Prior to GASB 72, we used Fair Value
- Under GASB 72 we have:
 - Fair Value
 - Acquisition Value



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GASB 72

- GASB 72 generally requires investments to be measured at fair value.



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GASB 72

Investment

An investment is a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.



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GASB 72

Fair Value

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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GASB 72

There are other GASB pronouncements that govern which investments are measured at fair value.

GASB 72 does not impact which investments are measured at fair value.



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GASB 72

Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts.



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GASB 72

Acquisition value

Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.



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GASB 72

Acquisition value

GASB 72 requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.



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GASB 72

For investments measured at fair value, we will have to identify the level of the fair value hierarchy within which the fair value measurements are categorized, as follows:



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GASB 72

Level 1 inputs – Quoted prices in active markets for identical assets or liabilities that a government can access at the measurement date.



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GASB 72

Level 2 inputs – Inputs other than quoted prices included within level 1 that are observable for an asset or liability, either directly or indirectly.



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GASB 72

Level 3 inputs – Unobservable inputs for an asset or liability



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GASB 72

For recurring and nonrecurring fair value measurements:

- The fair value measurement at the end of the reporting period



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GASB 72

For recurring and nonrecurring fair value measurements:

- Except for investments within the scope of paragraphs 71-74 that are measured at the NAV per share (or its equivalent), the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, Level 2, or Level 3)



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GASB 72

- A description of the valuation techniques used in the fair value measurement



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GASB 72

- If there has been a change in valuation technique that has a significant impact on the result (for example, changing from an expected cash flow technique to a relief from royalty technique or the use of an additional valuation technique), that change and the reason(s) for making it.



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GASB 77

- Tax Abatement Disclosures
- Effective for financial statement periods beginning after December 15, 2015.



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GASB 77 Background

- Will make tax abatement transactions more transparent.
- Will provide financial statement users with the information necessary to assess how tax abatements affect financial position and results of operations, including the ability to raise resources in the future.



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GASB 77 Background

- Local governments employ a variety of programs and policies that reduce the taxes an individual or entity otherwise would owe, with the intent of encouraging certain behaviors, such as constructing housing in a particular neighborhood or relocating/retaining business.



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GASB 77 Background

- Provides a definition of tax abatements which is for financial reporting purposes only.
- Identifies required note disclosure related to tax abatements.



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GASB 77 Background

- GASB 77 disclosure focuses on the amount of tax revenue not collected as a result of the tax abatement agreement not the economic benefit received.
- Evaluate the government's economic condition not the effectiveness of tax abatement programs.



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Tax Abatement Definition

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



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Tax Abatement Definition

- (a) one or more governments promise to **forgo tax revenues** to which they are otherwise entitled **and**



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Tax Abatement Definition

- (b) 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.



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Tax Abatement Definition

- The transaction's **substance**, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement.



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Existence of an Agreement

- Tax abatements result from an identifiable agreement between a government and a specific individual or entity.



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Existence of an Agreement

- There are two components to the agreement:
 - Promise by the government to reduce taxes
 - Promise by the individual to subsequently perform a certain beneficial action



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Existence of an Agreement

- The agreement may be in writing or may be implicitly understood by the government and the individual or entity.



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Forgo Tax Revenue

- Specific to tax revenue
- Taxes are a non-exchange transaction
- The abatement is a separate transaction
- For an exchange transaction, the reduction is part of the exchange



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Forgo Tax Revenue

- If there is a tax abatement agreement at the State level to forgo gas tax money, the local government would not disclose information about the tax abatement agreement because the local government revenue that is reduced is shared revenue, which is not considered to be tax revenue.



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Individual or Entity

- Tax abatements are agreements with individuals or entities. If there are no individuals or entities required to perform an action, there is no GASB 77 abatement.



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Individual or Entity

- The recipient can be a business or other type of entity, not just a person.
- The recipient might not be a current taxpayer, such as a business relocation agreement.
- The recipient may be a remitter of taxes, such as a retail business (sales tax diversion agreement).



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Agreement Precedes Reduction

- GASB 77 requires the agreement precede the performance of the required action by the individual or entity.



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Agreement Precedes Reduction

- Excludes tax deductions, exemptions or credits which often relate to a taxpayer's past actions.
- For example
 - charitable donations
 - Income earned on municipal bonds.
 - Senior citizen or veterans exemptions



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Transaction's Substance

- A transaction entitled TIF or Payment in Lieu of Taxes does not automatically include or exclude the transaction from the requirements of GASB 77.



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Disclosure Principles

- Disclosures should distinguish between:
 - Agreements entered into by the reporting government and
 - Agreements entered into by other governments



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Disclosure Principles

- Disclosures for tax abatements may be provided individually or may be aggregated.



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Disclosure Principles

- Agreements entered into by the reporting government should be organized by major tax abatement program.



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Disclosure Principles

- Agreements entered into by another government should be organized by the government that entered into the tax abatement agreement and the specific tax being abated.



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Disclosure Principles

- Disclosure should generally commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires.



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Note Disclosure

- Brief descriptive information:
 - Name and purpose of abatement
 - Specific taxes being abated
 - Authority for the abatement *
 - Eligibility requirements *
 - Mechanism by which taxes are abated *
 - Recapture provision *
 - Commitments made by the recipient *



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Note Disclosure

- Gross dollar amount (accrual basis) by which the government's tax revenues were reduced during the reporting period.



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Note Disclosure

- Amounts received or receivable from other governments in association with the foregone tax revenue.



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Note Disclosure

- Any other commitments made by the government. *



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Note Disclosure

- If tax abatements are disclosed individually, a brief description of the quantitative threshold the government used to determine which agreements to disclose individually.



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Note Disclosure

- If information is omitted because it is legally prohibited from being disclosed, include a description of the general nature of the omitted information and the specific source of the legal prohibition.



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Note Disclosure

- All preceding information is required when the reporting government entered into the agreement.
- Items with an (*) indicate disclosures not required when the abatement is entered into by another government.



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Letter of Transmittal

GFOA Best Practices

- Provides government the ability to identify the reasons for the tax abatements
 - Cost benefit analysis
 - Description of budgetary process
 - Policies, what the government is trying to accomplish
 - Monitoring
 - Benefits (increased employment)



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GASB 82

- Pension Issues
- Effective for financial statement periods beginning after June 15, 2016. There are certain exceptions related to selection of assumptions.



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GASB 82

Presentation of payroll related matters in RSI

- Covered employee payroll vs covered payroll
- Covered payroll is the payroll on which contributions to a pension plan are based



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GASB 82

Selection of Assumptions

A *deviation* as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice should not be considered to be in conformity with the requirements of Statement 67, Statement 68 or Statement 73.



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GASB 82

Classification of Employer-Paid Member Contributions

- An employer's expense and expenditure for those amounts should be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classified similar compensation other than pension.



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Questions?



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LGS

88 East Broad Street

Columbus, Ohio 43215

LGS Phone: (800) 345-2519

Dave Thompson: (513) 361-8563 or

(614) 728-6475

Tracie McCreary: (330) 438-7608

Email: dbthompson@ohioauditor.gov

tlmccreary@ohioauditor.gov



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Ohio Auditor of State
Dave Yost

88 E. Broad St.
Columbus, Ohio 43215
Phone: (800) 282-0370 Fax: (614) 466-4490
Email: ContactUs@OhioAuditor.gov
www.OhioAuditor.gov

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