

# 2017 UPDATES

Year End Workshops  
May/June 2017

Presented By:  
Georgia Department  
of Audits & Accounts

Georgia State Capitol



# Presentation Topics



- ✓ Important Dates and Other Reminders
- ✓ Other Updates
- ✓ Accounting and Reporting Issues
- ✓ The Financial Reporting Entity
- ✓ Standards Updates
- ✓ Client Satisfaction Surveys

# Important Dates and Other Reminders



# Important Due Dates



## Transparency in Government Act (TiGA)

📅 July 10<sup>th</sup>

TiGA Submission Site Opens

📅 August 15<sup>th</sup>

Salaries and Travel Report (CS1)

📅 October 1<sup>st</sup>

Audit History File

📅 December 15<sup>th</sup>

SPLOST Schedule

# P-Card Transaction Reporting



- FY 2018 Reporting Cycle
  - ✓ Increases transparency
  - ✓ Provides more relevant data to the public
  - ✓ Reporting 2 levels of detail
    - Vendor Name
    - Purchase Description
    - Date of Purchase
    - Purchase Amount

# P-card Transaction Layout



Field Name	Size/Format	Required
Vendor Name	Text 100	Yes
MCC Description	Text 150	Yes
Transaction Date	Date (MM/DD/YYYY)	Yes
Amount	Number (9999999999.99)	Yes

**File Format:**  
**.CSV**  
(comma delimited)

# Important Due Dates



## Immigration Act

 November 1<sup>st</sup>

Immigration Submission Site Opens

 December 31<sup>st</sup>

Immigration Reporting

# Important Dates



## Availability of Audit Tools

1 July 31<sup>st</sup>

Financial Statement Templates  
Note Templates

Certificate of Distinction for  
Excellent Financial Reporting

1 November 15th

Financial Statements Due to DOAA

# DOAA Award of Distinction for Excellent Financial Reporting



# Award Criteria



Criteria	Description of Best Practices
Timeliness	<p>Financial Statements including MD&amp;A, note disclosures, required supplementary information and supplementary schedules and all key supporting evidence were available for auditors by November 15.</p> <p>Compliance with Transparency in Government Act Accurate information submitted by the following established deadlines:</p> <ul style="list-style-type: none"> <li>• Salary and Travel Information: August 15</li> <li>• Audit History/Payments Files: October 1</li> <li>• SPLOST Schedule: December 15</li> </ul>
Quality of Financial Statements, Note Disclosures, Required Supplementary Information and Supplementary Information	<p>First set of financial statements, MD&amp;A, notes, required supplementary information and supplementary information provided for audit required only minimal adjustments during the audit.</p>

# Award Criteria



Criteria	Description of Best Practices
Quality of Audit Documentation	Full supporting documentation to substantiate financial statements provided in a timely manner. Evidence easy to locate and use for audit.
Resolution of Accounting Standards / Presentation Issues	Management resolved all accounting standards and presentation issues in a timely manner.
Key Staff	Key staff readily available and cooperative during the audit and did not contribute to any delays in finalizing the audit.
Number/Significance of Deficiencies Identified	No significant deficiencies or material weaknesses noted during the audit.
Clean Audit Opinion	Unmodified Opinion <b>(All Opinion Units)</b>

# Other Notes & Reminders



- Special reporting needs
  - Let us know ASAP!
- GASBO financial statement workshop

# Other Updates



# Re-evaluation of Reporting



- Currently studying processes around reporting deficiencies and other information to Those Charged with Governance
- Goals include:
  - Consistency
  - Relevance
  - Value Added Recommendations
- You will likely see changes in our reporting during the 2017 audit cycle

# Re-evaluation of Reporting



- Inline with standards Internal Control Issues will be reported as one of the following:
  - Verbal Comment at the Exit Meeting
  - Significant Deficiency Finding in Report
  - Material Weakness Finding in Report
- Management Letter Comments will be used to provide management with process/efficiency recommendations

# Examples of Potential Changes



- State Compliance Examples
  - 15% rule
  - TiGA Submission
- Internal Control Examples
  - Separation of Duties
  - Financial Statement Prep

# Tips



- ✓ Review your internal control documentation/ risk assessment documents
- ✓ Document your assessment of the level of risk vs the cost of a control
- ✓ Look at the issues reported to you in the prior year – Have you adequately addressed the issue by eliminating the control deficiency or implementing compensating controls?
- ✓ Monitoring is critical to ensure your controls are operating as intended

# Accounting and Reporting Issues



# Accounting & Reporting Issues



- Broadband/Spectrum – FCC Donation
  - Valuation of Asset  
(continued research)
  - Broadband Lease note disclosure

## **Broadband Spectrum Lease**

Effective [date], the School District entered into a [number of years]-year lease agreement with [Name of Lessee] for the lease of excess spectrum capacity on Education Broadband Service licenses currently held by School District. These licenses were granted to the School District by the Federal Communications Commission. The lease agreement requires monthly lease payments over the term of the lease, of which [amount] was recognized during Fiscal Year 2016 as a general revenue on the Statement of Activities.

# Accounting & Reporting Issues



- Energy Efficiency Leases
  - Capital Asset must be reported
    - ✓ Lease documentation
    - ✓ Estimate
  - Deficiency exists if capital asset not reported
  - Significant Cash Balances should be shown as "Restricted Cash" on the Statement of Net Position

# Net Investment in Capital Assets (NICA)



Capital Assets, Net (Exhibit A)
Less:
Long Term Liabilities <i>(current and noncurrent portions)</i>
Notes and Loans Payable – Capital Asset Related <i>(current and noncurrent portions)</i>
Contracts Payable – Capital Asset Related <i>(not considered in Unexpended Bond Proceeds)</i>
Retainage Payable – Capital Asset Related <i>(not considered in Unexpended Bond Proceeds)</i>
Deferred Loss on Debt Refunding
Deferred Inflow Service Concession Arrangement – Capital Asset Related
Accounts Payable – Capital Asset Related
Advances – Capital Asset Related
Add:
Deferred Gain on Debt Refunding
Long-Term Liabilities not associated with Capital Assets <i>(ex. Compensated Absences)</i>
Unexpended Bond Proceeds
Uncapitalized Bond Proceeds expended

# NICA – Discussion Points



- If you use total long-term liabilities from the Statement of Net Position (Exh A), you may need to add back items not related to Capital Assets:
  - Compensated Absences
  - Capital Leases for items not Capitalized (copiers, computers, ipads, etc.)
- Be sure to consider **ALL** contracts and retainages payables, not just those related to Bond Projects
- Your method of calculating “Unexpended Bond Proceeds” will impact the calculation of NICA.

# NICA – Discussion Points



Unexpended Bond Proceeds (Fund Balance Method)

Fund Balance for Bond Proceeds Fund

**Less:** Interest Earned on Bond Proceeds  
(Cumulative Total)

=

Total Bond Proceeds on Hand

**Note:** Because "Fund Balance" accounts for contracts and retainages payable, if recorded on the Fund Statements, they should not be removed again in the NICA calculation.

# NICA – Discussion Points



Unexpended Bond Proceeds (Cash Method)

Cash Balance in Bond Proceeds Bank Acct

**Less:** Interest Earned on Bond Proceeds  
(Cumulative Total)

=

Total Bond Proceeds on Hand

**Note:** When starting with the "Cash Balance", contracts and retainages payable have not been considered. They should be deducted as part of the NICA calculation.

# NICA – Discussion Points



## Other Notes on “Bond Proceeds on Hand”

- Should never be negative.
- Interest Earned – cumulative calculation for the life of the debt
- Items purchased with Bond Proceeds that are not capitalized must be added back.
  - Cumulative calculation for the life of the debt.
  - Typically tracked by Fiscal Year

# NICA – Discussion Points



- Impact of Energy Leases
  - If Cash Proceeds are on hand for Energy Leases, these proceeds should be added back to the NICA calculations.
  - Items purchased with proceeds from Energy Leases that are not capitalized must be added back.
    - Cumulative calculation for the life of the debt
    - Typically tracked by Fiscal Year

# Other Reporting Issues



## **Fund Balance – Revenue Shortfall**

- Also known as “Reserve for Subsequent Period Expenditures”
- Per GASB 54 should be shown as one of the following:
  - Committed by Board Action
  - Restricted, if there is a legal restriction
  - Unassigned

## **Qualified School Construction Bond (QSCB)**

- Interest subsidy must be reported as revenue
- Governmental funds – miscellaneous revenue
- Government-wide – Capital grants and gifts against Interest expense

## **Deferred Loss/Gain on Debt Refunding**

- Amortization should be charged to Interest expense

# The Financial Reporting Entity



# Financial Reporting Entity



Reporting Entity Consists of:

- Primary government,
- Organizations for which the primary government is financially accountable, and
- Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

# Financial Reporting Entity



## Abbreviations

PG – Primary Government

CU – Component Unit

PCU – Potential Component Unit

# Primary Government



Primary government (PG) has the ability to:

- ✓ Adopt its own budget;
- ✓ Set its own tax and other revenue rates;  
and
- ✓ Issue debt without substantive approval from another entity

Note: A special-purpose government (or any other organization) that is *not* legally separate should be considered, for financial reporting purposes, part of the primary government that holds the corporate powers.

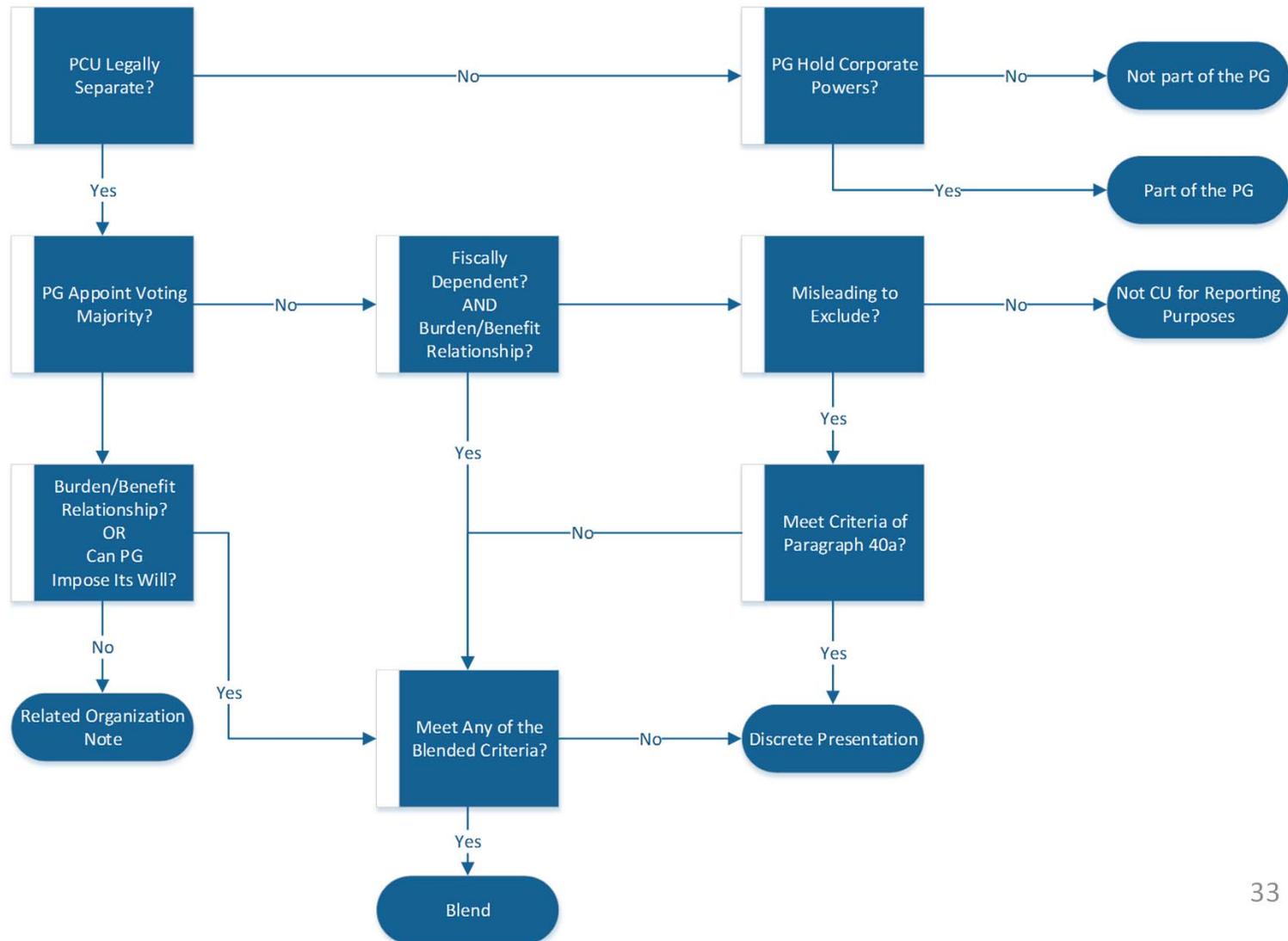
# Component Unit



Legally separate organization meeting any of the following conditions:

- ✓ Financial Accountability to PG
- ✓ The PG holds a majority equity interest in the CU for the purpose of facilitating government services; or
- ✓ The PG's financial statements would be misleading if the CU were excluded.

# GASB 61 Flowchart



# Potential Component Units



- Is the PCU legally separate?
  - Possesses the corporate powers that would distinguish it as being legally separate from the primary government
    - have a name;
    - the right to sue and be sued in its own name without recourse to a state or local governmental unit; and
    - the right to buy, sell, lease, and mortgage property in its own name.

# Potential Component Unit



## Financial Accountability - 2 ways

### 1<sup>st</sup> Assessment

- ✓ The PG **appoints a voting majority** of the PCU's governing body  
*AND*
- ✓ the PG can **impose its will** on the PCU  
*and/or*
- ✓ a financial **benefit/burden relationship** exists between the PG and the potential component unit (PCU);

### 2<sup>nd</sup> Assessment

- ✓ The PCU is **fiscally dependent** on the PG  
*AND* has a financial benefit/burden relationship with the PG;

# Impose its Will



Primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

# Impose its Will



The PG can impose its will on a PCU if the PG can do any *one* of the following:

- ✓ Remove appointed board members.
- ✓ Modify or approve the budget.
- ✓ Modify or approve rates or fees affecting revenues.
- ✓ Modify, veto, or overrule board decisions.
- ✓ Appoint, hire, reassign, or dismiss operating management.
- ✓ Take other substantive actions.

# Financial Benefit/Burden



A Financial Benefit/Burden Relationship exists with any one of the following

- ✓ Legal Entitlement or Other Access to the PCU's Resources
- ✓ Legal or Other Obligation to Finance the PCU's Deficits or to Provide Financial Support to the PCU
- ✓ Obligation in Some Manner for Debt of the PCU

# Financial Benefit/Burden



## Access to PCU's Resources

- Does not necessarily imply PG control over the PCU or its resources
- Demonstrated in several ways:
  - ✓ the primary government or its component units historically may have received, directly or indirectly, a majority of the economic resources provided by the organization
  - ✓ the organization previously may have received and honored requests to provide resources to the primary government

# Financial Benefit/Burden



## Access to PCU's Resources (cont.) Demonstrated in several ways:

- ✓ The organization is a **financially interrelated** organization, as defined by [FASB Statement No. 136](#), Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others
  - the charter or bylaws of one organization limits its activities to those that benefit the other organization. In this case, the PG does not control the PCU, but the PCU's own operating charter requires its focus to be limited to the PG.
  - PCU has received requests for resources from the PG or its other component units in the past and has honored those requests, even if no requests were honored in the current year.

# Fiscal Dependency



The PCU is fiscally dependent on the PG if the PG has substantive approval authority over any of the three powers listed below:

- a. have its own legally established name, statutorily or in a separate legal document;
- b. sue or be sued in its own name without recourse to a higher level of government; and
- c. buy, sell, own, lease, and mortgage property *in its own name*.

# Misleading to Exclude - Organizations providing support



A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

# Reporting



- **Blending of Component Units**
  - the data for the component unit's funds are combined with the data for corresponding funds of the primary government.
- **Discrete Presentation of Component Units**
  - presentation of data for the component unit in a column to the right of the data columns for the primary government.

# Reporting



## Blending Criteria

CU should be included using blending method if any of the following are met:

1. The CU's governing body is substantively the same as the PG governing body and
  - a. there is a financial benefit or burden relationship between the primary government and the component unit, or
  - b. management of the primary government has operational responsibility for the component unit.

# Reporting



## Blending Criteria

2. The CU provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.

# Reporting



## Blending Criteria

3. The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government. Repayment generally occurs through a continuing pledge and appropriation by the primary government to the component unit that, in turn, pledges those appropriation payments as the primary source of repayment for its debt.

# Example #1



## **Parent Teacher Organization**

*Facts:* Parents of students in a public school district created a legally separate, tax-exempt PTO to raise private funds that supplement the state and local funding to their children's school district. These resources are required to be used exclusively for the benefit of the school district. The PTO solicits funds year-round and sponsors an annual drive to perpetuate and secure the future contributions to the school district. The funds raised, or the income earned thereon, are contributed to the school district as determined by the board of the PTO, but generally the PTO retains only enough resources to cover its fund-raising and other operational expenses. The funds raised and given to the school district annually are not significant to the school district.

# Example #1



## Parent Teacher Organization

Is The PTO is a "financially interrelated" organization based on the guidance of FASB Statement 136?

**YES – The PTO charter requires that funds raised be used exclusively for the benefit of the School District**

# Example #1



## Parent Teacher Organization

Determine whether the PTO is required to be reported as a component unit of the school district. Why or why not? If so should it be blended or discretely presented?

The PTO is not *required* to be reported as a component unit of the School District because one of the three criteria is not met. The PTO is a legally separate, tax-exempt entity whose resources are entirely for the direct benefit of the school district. Because the PTO is a "financially interrelated" organization, the "entitlement/ability to access" criterion is satisfied. However, the third criterion is not met because the economic resources received or held by the PTO that are required to be used for the benefit of the high school are insignificant to the school district.

If the resources were significant, then the PTO would be required to be reported as a component unit and discretely presented in the district's financial statements.

# Example #2



## **College and Career Academy**

*Facts:* A public school district and local technical college created a legally separate, tax-exempt College and Career Academy to provide technical education to high school students served by the school district. The Board of Education appoints six of the nine voting members of the academy's board. The organization raises private funds from local donors and businesses that supplement the state and local funding of the academy. These resources are required to be used exclusively for the instructional program of the academy. The academy will be housed in a new facility constructed using SPLOST proceeds and owned by the school district. The Superintendent of the school district is the CEO of the academy and is in charge of day to day operations, including the approval of expenditures and managing its educational programs.

# Example #2



## College and Career Academy

Determine whether the Academy is a component unit of the school district. Why or why not? If so should it be blended or discretely presented?

**The Academy should be presented as a blended component unit. The District appoints a majority of the Academy board. The financial benefit/burden criteria are met because the District receives the majority of the economic resources of the organization, which also meets the blending criteria.**

# Component Unit – To Dos



- Potential Component Unit Forms
  - ✓ Complete determination for each Potential Component Unit
  - ✓ Update and provide to auditors **annually**
- Discretely Presented Component Unit
  - ✓ Include significant note disclosures
- All component units included for reporting purposes must be audited or there is a potential for a modified opinion.

# Standards Updates



# GASB 72 – Fair Value Measurement and Application



# GASB 72 – What You Need to Know



- ✓ Focus is Fair Value
  - How is it calculated?
  - What inputs are used as part of the calculation?
- ✓ Applicable to Investments, including capital assets held as investments

# GASB 72 – What You Need to Know



## Fair Value

“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”

# GASB 72



- ✓ Requires donated capital assets, works of art, historical treasures and similar assets, and assets received in a service concession arrangements to be measured at “acquisition value”
- ✓ Acquisition value - the price that would be paid to acquire an asset at the acquisition date
- ✓ Measurement of donated capital assets at acquisition value to be performed prospectively to transactions occurring after implementation

# GASB 72



- ✓ Assets held primarily for purpose of income and have a present service capacity based solely on the ability to generate cash are considered investments
- ✓ Determination of whether an asset is an investment is made at the time of acquisition - Even if changes in intended use
- ✓ Prior periods should be restated at implementation unless restatement is not practical

# Example #1



Which of the following assets would be categorized as an investment under GASB 72?

*A public university holds student loan receivables. The loans were made as part of a governmental program to encourage higher education. The present service capacity of the loans is to provide a service that allows students to obtain an education.*

**Not an investment. Service capacity is not to generate revenue.**

# Example #2



Which of the following assets would be categorized as an investment under GASB 72?

*A state owns royalty interests in certain oil and gas properties. It holds these interests in order to generate income for providing funding to schools within the state.*

**Investment – primarily held to generate income**

# Example #3



Which of the following assets would be categorized as an investment under GASB 72?

*A state owns land and timber resources in an undeveloped part of the state. The state acquires the resources in order to preserve the land; however, the state occasionally enters into contracts for a company to cut and sell the timber, for which the state receives a fee.*

**Not an investment. Although occasionally generates revenue, the asset is held primarily to preserve the land**

# Example #4



Which of the following assets would be categorized as an investment under GASB 72?

*A school district owns a building that is no longer used by the district, but is rented to a local non-profit organization. The original use of this building at acquisition was as an elementary school.*

**Not an investment. Although current capacity is revenue-generating, the original service capacity was as a school.**

# GASB 72 – What You Need to Know



- ✓ Investments are categorized by levels in the Notes to the Financial Statements
- ✓ Levels describe what goes into the calculation of fair value
- ✓ The overall “fair value level” is dictated by the lowest level within the hierarchy of any significant input used in the valuation technique.
- ✓ Think of this as the quality of the information used to determine fair value

*Information on the next 2 Slides from  
AICPA Governmental Audit Quality Center*

# Fair Value Hierarchy



## LEVEL 1

- **Quoted prices** (unadjusted) in **active markets** for **identical assets** or liabilities that a government can access at the measurement date

## LEVEL 2

- **Inputs** (other than quoted market prices included within Level 1) that are **observable** for the asset/liability, either directly or indirectly
- *(i.e., observable prices for similar assets in active markets, prices for identical assets in non-active markets, direct/indirect observable market inputs)*

## LEVEL 3

- **Unobservable inputs** for the asset/liability; used to the extent that observable inputs are not available

# Fair Value Hierarchy



## LEVEL 1

- Equity securities traded on NYSE, NASDAQ
- Listed futures and options contracts
- “On-the-run” U.S. Government and Agency bonds
- (only 1 to 2% of bonds o/s, however are ones mostly traded)

## LEVEL 2

- Corporate bond issuance not traded in an active mkt
- Certain mortgage backed securities and asset-backed securities
- Municipal bonds not traded in an active market
- Interest rate swaps
- “Off the run” U.S. Government and Agency Bonds

## LEVEL 3

- Private equity investments
- Most nonfinancial assets
- Subordinate (residual) tranches in securitization structures.

# Example #5



Indicate the fair value level to be disclosed for each investment under GASB 72.

1. U.S. Treasuries currently being auctioned "on the run" **Level 1**
2. U.S. Treasuries for which the U.S. Government has replaced in its auction with a newer series "off the run" **Level 2**
3. Municipal Bonds **Level 2**
4. Actively Traded Money Market fund **Level 1**
5. Common Stock **Level 1**
6. FNMA (U.S. Agency guaranteed) **Level 2**
7. Real estate held primarily for income **Level 3**

# GASB 72 – What You Need to Do



- Focus on investments other than those classified as Cash and Cash Equivalents
  - CDs
  - LGIP
- Get with your financial institutions and determine how investments are valued
  - GASB 72 or Leveling Report
- Add appropriate disclosure to the Notes
  - Document your determination of the appropriate level

# GASB 72 – How We Can Help



- ✓ Notes Template will include a couple of options for the required disclosure
- ✓ Audit Toolkit – Investment Section
  - Investment Disclosure Reference has been updated to include “likely” levels for common investments
  - Investment inquiry has been updated to include a request for the new required information

# Sample Disclosures – GASB 72



The School District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

At June 30, the School District had the following investments by fair value level:

Investments by fair value level	Fair Value	Level 1	Level 2	Level 3
U.S. Treasuries	\$ 4,077,699		\$ 4,077,699	
U.S. Agencies				
Explicitly Guaranteed	2,330		2,330	
Implicitly Guaranteed	2,400,198		2,400,198	
Corporate Debt	143,822		143,822	
Mutual Bond Funds	251,242	\$ 251,242		
Equity Mutual Funds - Domestic	5,524,728	5,524,728		
Equity Mutual Funds - International	2,009,980	2,009,980		
Equity Securities - Domestic	598,937	598,937		
Equity Securities - International	58,746	58,746		
Real Estate Held for Investment Purposes	481,110			\$ 481,110
Real Estate Investment Trust	953,501	953,501		
<b>Total investments by fair value level</b>	<b>\$ 16,502,293</b>	<b>\$ 9,397,134</b>	<b>\$ 6,624,049</b>	<b>\$ 481,110</b>

# Sample Disclosures – GASB 72



## Fair Value of Investments

The School District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The district has the following recurring fair value measurements as of June 30, 2016:

Equity Mutual Funds - Domestic of **[\$Amount]** are valued using quoted market prices. (Level 1 inputs)

U.S. Treasuries of **[\$Amount]** are valued using a matrix pricing model. (Level 2 inputs)

# Updated Investment Disclosures Reference



## Investment Disclosures

Use the matrix to identify common disclosure requirements and other relevant information.

INVESTMENT TYPE	GASB 40 Disclosures <sup>(2)</sup>					GASB 72		
	Interest Rate Risk	Segmented Time Dist. Investment Maturity	Weighted Average Maturity	Credit Quality Risk	Custodial Credit Risk	Concentration of Credit Risk	Appropriate Presentation	Typical FMV Level <sup>(3)</sup>
U. S. Treasuries	X	X			X			
Bill	X	X			X		FMV	1
Note	X	X			X		FMV	2
Bond	X	X			X		FMV	2
Municipal Bonds	X	X		X	X		FMV	2
Commercial Paper	X	X		X	X		Amortized Cost	GASB 31 ¶ 9
U. S. Agencies								
Explicitly Guaranteed Obligations of the U. S. Government	X	X			X			
Government National Mortgage Association (GNMA)	X	X			X		FMV	2
Export-Import Bank (EXIMBANK)	X	X			X		FMV	2
Small Business Administration (SBA)	X	X			X		FMV	2
Implicitly Guaranteed Obligations of the U.S. Government	X	X		X	X	Concentration Credit Risk must be disclosed if any investment in one issuer represents 5 percent or more of the		
Federal National Mortgage Association (FNMA)	X	X		X	X		FMV	2
Federal Home Loan Banks (FHLB)	X	X		X	X		FMV	2
Federal Home Loan Mortgage Corporation (FHLMC)	X	X		X	X		FMV	2
Federal Farm Credit Banks (FFCB)	X	X		X	X		FMV	2
Student Loan Marketing Association (SLMA)	X	X		X	X	FMV	2	
Money Market Investments (less than one year maturity at time of purchase)							Amortized Cost	GASB 31 ¶ 9
Certificates of Deposit - Negotiable	X	X		X	X		Amortized Cost	GASB 31 ¶ 9
Certificates of Deposit - Non-Negotiable							Cost	GASB 31 ¶ 8

# GASB 77 – Tax Abatements



# GASB 77 – Tax Abatement What You Need to Know



## 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:

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

and

(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.

# GASB 77 – Tax Abatement What You Need to Know



Does not Include:

- ✘ Exclusion of income earned on municipal bonds for income taxes
- ✘ Full or partial exemption of senior citizens and military veterans from property taxes.
- ✘ Certain items from their tax liabilities or from the amount that is being taxed.
  - Charitable giving.
  - Cost of installing energy-efficient features.
- ✘ Sales tax holidays.

# GASB 77 – Tax Abatement What You Need to Know



- Issued to increase information about revenues that governments forgo
- **GASB's view:** Users of governmental financial statements need information about limitations on the ability of governments to raise revenues, some of which are the product of tax abatements

# GASB 77 – Tax Abatement What You Need to Know



- Disclosure of information required about tax abatement agreements regardless of whether the reporting government was involved in the agreement
- Information about a government's own tax abatement agreements is required to be disclosed separately from information about tax abatements resulting from agreements entered into by other governments
- A transaction's **substance**, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement

# Disclosure Summary



Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	

# Disclosure Summary



Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓

# Sample Disclosure – GASB 77



## *Abatements by Other Governments*

### *State of Sample Tax Abatements*

County property tax revenues were reduced by \$28,346,000 under agreements entered into by the State of Sample. Under the State's biennial budget for fiscal years 20X1–20X2, the state reimburses the County for one-third of the reduction in tax revenues. The County received \$9,449,000 in County fiscal year 20X1.

### *Regional Economic Development Corporation (REDC) Tax Abatements*

Under agreements entered into by REDC, County sales tax revenues were reduced by \$7,657,000.

# Example



True/False

A city is not required to make disclosure as a tax abatement of an agreement to provide free water service to a new processing plant up to a sum of \$5,000,000 rather than reduce property taxes paid by the plant.

**FALSE – Substance over form should be viewed in determining whether an abatement exists. Technicalities used to avoid the usage of the term “tax” will not remove disclosure requirements**

# Example



True/False

In the previous example, the city should record a liability on the balance sheet for water service provided and amortize it over the life of the agreement.

**FALSE – GASB 77 is a requirement for note disclosure reporting and does not require recognition in the government’s financial statements**

# GASB 77 – Tax Abatement What You Need to Do



- Start communicating with your tax commissioners now
- Understand how known tax abatements impact your district
- Establish a quantitative threshold for disclosure through Board Policy

# GASB 77 – Tax Abatement How We Can Help



- Working with Financial Review at GDOE to ensure we provide adequate technical assistance and a sample disclosure
- Working with SAO and other state agencies to determine how tax abatements at the state level impact your financial statements (i.e. Sales Tax)

# Client Satisfaction Survey Results



# Our Process



- ✓ Our Business Innovations Team sends surveys to each auditee once the audit report has been released.
- ✓ Surveys are received and reviewed by our Professional Standards and Practices Division
- ✓ Results are provided to the State Auditor, Directors, and other responsible individuals
- ✓ An overall assessment is done periodically, but individual issues are addressed immediately.

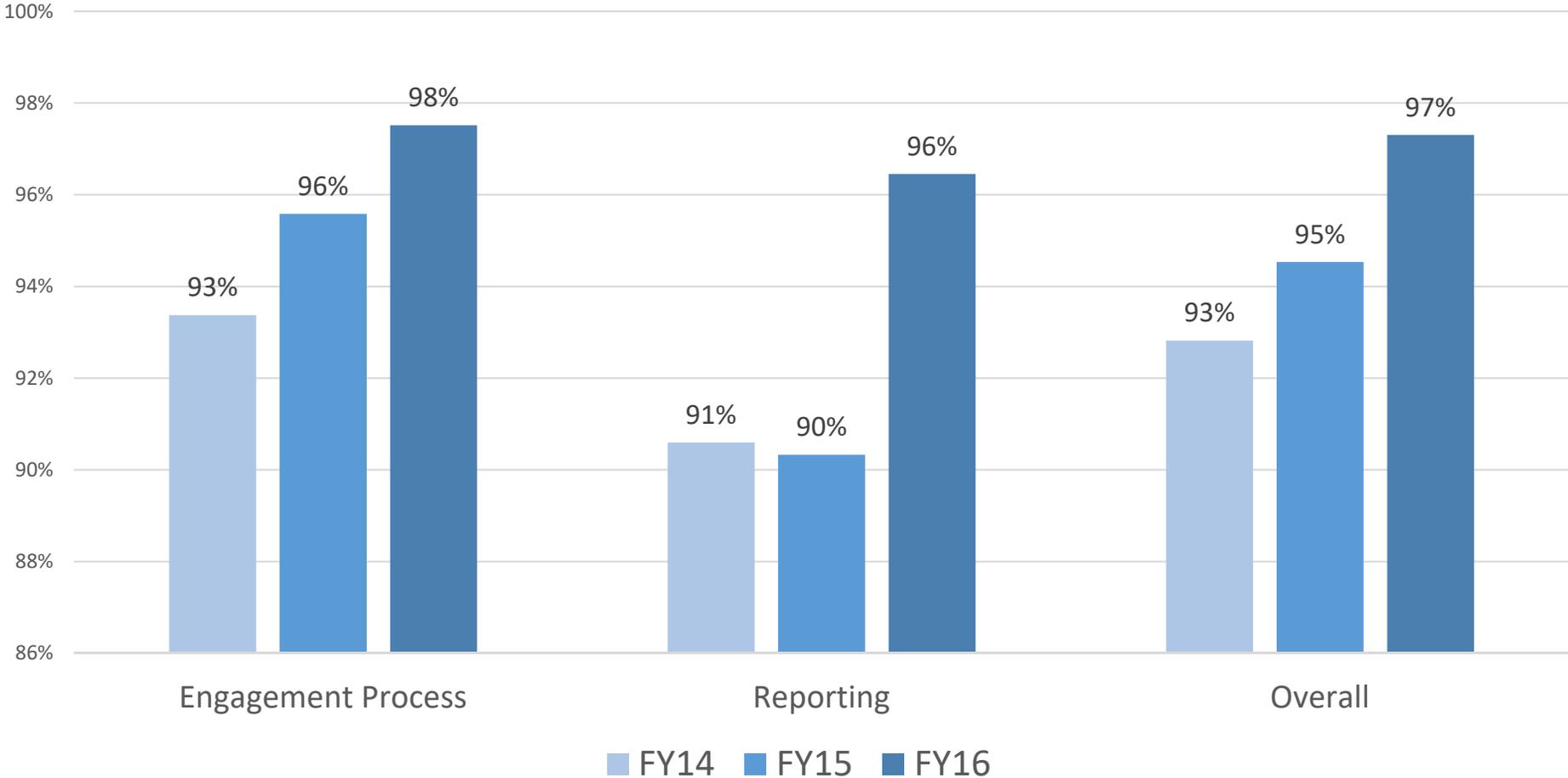
**Thank you for responding!!**



# Client Satisfaction Survey Results



Percentage of Positive Feedback by Fiscal Year



# Next Steps



- Continued focus on communication
  - Items required and the expected response time should be communicated up front
  - Issues/Findings should be communicated timely with adequate opportunity for you to respond
  - Status/Progress should be communicated throughout the engagement process

# Next Steps



- Report Processing
  - Undergoing a performance review of our report process
  - Reevaluating the staffing and deployment of teams to ensure efficiency throughout the audit cycle
- Consistency
  - Re-evaluation of how we report deficiencies
  - Re-engineering of audit methodology

# Questions?



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