



2017 Accounting and Auditing Update

May 3, 2017 - Donna Hanson & Chris Geck

plante moran

audit • tax • consulting • wealth management

Topics



- GASB, GASB, GASB and more GASBs....
- Uniform Guidance
- Status Update on ORS 3% and FICA
- Other Items

GASB 77 – Effective June 30, 2017

Tax Abatements

Overview of GASB 77



- GASB 77 will require footnote disclosures for tax abatements that are:
 - Initiated by your local unit of government; and
 - Initiated by other governments but will impact your local unit
 - Public Schools in Michigan “fit” here
- Focus disclosures on the amount of tax revenue **NOT COLLECTED** as a result of tax abatement programs

EFFECTIVE DATE:

This will be effective with the June 30, 2017 school financial reports and later (years beginning after Dec. 15, 2015)

What is a Tax Abatement?



“Based on the aforementioned considerations, the Board defined a tax abatement (for financial reporting purposes) as resulting 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.

The scope of this Statement is limited to transactions that meet this definition.” (¶B15)

What is Excluded?



- Tax exemptions
 - Governments exempt certain individuals, entities or activities from taxation
 - The State gives a tax credit to senior citizens for property taxes
- Tax deductions
 - Governments allow individuals or entities to deduct certain items from their tax liabilities or from the amount that is being taxes
 - Income tax deductions for charitable giving or programs allowing homeowners to deduct a portion of the cost of installing energy-efficient features from the amount of income tax they owe
- Other tax expenditure programs
 - General tax reductions given to classes of properties without individual agreements with those taxpayers to perform (like an exemption to a class of taxpayers; or a tax-free zone)

Tax Abatement Checklist



- All of the following must be present for GASB 77 to apply:
 - Promise by government to reduce taxes
 - Resulting from an agreement with an individual or entity
 - Individual or entity promises specific action
 - That specific action occurs after the agreement has been entered into
 - Specific action contributes to economic development or otherwise benefits the government or citizens

Examples



- 50% tax reduction for an entire class of properties (e.g., industrial facilities)
- Agreement with each individual organization
- The business being granted the abatement agrees to certain conditions (improvement of a building or acquisition of personal property, etc.)
- Their taxes are then reduced for up to X years (they're removed from traditional property tax rolls and added to a special, discounted tax roll)

Examples



CONCLUSION: This is a tax abatement.

Examples (Cont'd)



- Tax programs to create jobs or incentivize organizations to stay in a state or region
- In general, these are contracts with individual businesses promising future tax credits in exchange for performing certain actions (retaining jobs; staying in the state or region; etc.)

Examples (Cont'd)



CONCLUSION: These are tax abatements.

Examples (Cont'd)



- A state-wide exemption from taxes of certain classes of property
- The taxpayer has not entered into any specific agreement to perform (to purchase eligible property); instead, this is just a general tax reduction

Example – homestead property tax exemption

Examples (Cont'd)



CONCLUSION: This is not a tax abatement.

Examples (Cont'd)



- Tax laws that reduce taxes –
Renaissance/rehabilitation Zones
- Yes, taxes are reduced
- But there are no agreements in place with individual taxpayers to reduce their taxes in exchange for their performance

Examples (Cont'd)



CONCLUSION: These are not tax abatements.

Potential Issues



- If a governmental unit receives a reduction in revenue due to an abatement, but is made whole by another entity directly related to this reduction, does GASB 77 still apply since there is no net revenue impact?
- Short answer, YES. (Per recent GASB Q&A)
- The Q&A states that the fact that the government can recover tax revenue is not relevant to determining whether the agreement meets the definition of an abatement or not
 - The fact the State makes up for the revenue loss has **NO IMPACT** on the need to disclose 😞

Potential Issues



- Determining whether the agreements meet the definition of a tax abatement outlined in GASB 77
- Gathering information from other taxing units (HUGE for K12)
- Special authorities – could be voluminous amount of tax abatements depending upon number of taxing entities
- Ensuring completeness of footnote disclosure

Possible GASB 77 Abatements



- IFT – Likely, but will need to pay close attention to whether the agreement was entered into before or after the taxpayer fulfilled their “promise”
- Brownfield Redevelopment – Likely, as long as the developer is the one being reimbursed for remediation efforts
- TIFA or DDA – No, generally there are no specific agreements here and overall taxes are not reduced
- New Personal Property Tax Act – Likely, however obtaining information from the municipality is not likely given lack of information filed by taxpayer

What to Disclose



- For abatements entered into by the **other governments (K12)**:
 - Brief description, including names of governments entering into the abatements, and the specific taxes being abated
 - Total amount of taxes reduced in current year
 - If reimbursed for lost revenue, from another entity, also disclose the amount received or receivable, from who, and under what authority.

NOTE:

Tax abatements can be disclosed *individually* or *aggregated by type*

Simple Disclosure When Agreements Have Been Made by Other Entities



Note X – Tax Abatements

- The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the City of Example. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties
- For the fiscal year ended June 30, 2017, the District's property tax revenues were reduced by \$2,726,000 under these programs
- There are no significant abatements made by the District

Action Plan for Implementation of GASB 77:



- Start now!
- Practical question: Where do Schools get the data?
 - Individual taxing units? County? MDE? Treasury?
 - We reached out to MDE to see if they capture info on behalf of all Districts - unfortunately they do not have all info 😞

Identify all possible tax abatements offered by other governments

- Understand the requirements – does it meet all the criteria?

GASB 77 applies to all governments – Townships, Cities, County – they have to capture this info for their reporting.

- Likely going to need to ask them for this information
- County may have it...but they may not have it handy

Action Plan for Implementation of GASB 77 (Cont'd):



- Once the applicable tax abatement programs are identified, start gathering data for footnote disclosure
 - Remember revenue loss can be more than just non-homestead property tax
 - Consider Debt and Sinking fund mills
 - The taxing units will provide you with values – you will need to calculate the tax
- Keep materiality in mind!
- Standardized communication
- Work-aid - summarizing

GASB 68

Year 3 (a Charm!)

GASB 68 – Pension Reporting



Government Accounting Standards Board

- GASB 68 – pension obligation
 - Year 3 - June 2017
 - Should be easier than Year 1 AND 2!
 - Still required to test employees (census testing)
 - Still need to get information, audited, from ORS / Auditor General
- All new ORS staff
- Plante Moran met with new ORS lead on GASB 68 and 75 = John Karagoulis.
- 147c – amount that relates to pension component (and part of statutorily required contribution): FY16 = 69.45% FY17 = 72.88%
 - This is going to be important to track for both GASB 68 and for GASB 75 (OPEB) as it comes into play next year

GASB 68 – Pension Reporting (Cont'd)



Government Accounting Standards Board

- GASB 68 – pension obligation
 - Year 3 - Timing
 - Timing stressed to be JULY (please!)
 - Data to be available - goal no later than second week of July
 - Deferred (inflows/outflows)/amortization amounts will have a Year 3 layer added
- Confirmation
 - Possible you will be selected for confirmation testing
 - Auditor General needs 100% response rate
 - If you receive request, complete ASAP
- Detail 2 reports
 - Reminder – download and save, these are needed for auditor's census testing!

GASB 82

Pension Issues

GASB 82 – More Pension Updates!



- Application issues:
 - Payroll issues – reportable comp vs gross comp
 - Require presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.
 - Prior years display should be restated
 - Most Districts – this was already done last year 2016 (restated 2015 if needed)

GASB 75

Accounting and Reporting for Postemployment Plans OTHER
than Pensions

Implementation Dates – OPEB Standards



	OPEB Plans	Government Employers providing OPEB
Pronouncement	GASB 74	GASB 75
Effective Date	Fiscal years beginning after June 15, 2016	Fiscal years beginning after June 15, 2017
Implementation:		
June year end	2017	2018
September year end	2017	2018
December year end	2017	2018
March year end	2018	2019

GASB 75 –Cost Sharing Plans Overview



- Effective for K-12 year end 6/30/18, (State Plan Year 9/30/17)
- Basic concepts follow GASB 68
- Proportionate Share of the Net OPEB Liability (of all employers for benefits provided through the OPEB plan) totaling the collective net OPEB liability
- An employer's proportion is determined on a consistent basis as the manner in which contributions to the OPEB plan are determined
- Recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate share

GASB 75 –Cost Sharing Plans Overview (Cont'd)



- Amortization period equal to average of expected remaining service lives of all employees provided with OPEB through the plan
- Employer contributions subsequent to the measurement date of OPEB liability are reported as deferred outflows of resources
- Governmental fund financial statements, employer's proportionate share of the collective net OPEB liability is recognized to extent liability is normally expected to be liquidated with expendable available financial resources (no change at fund level!)
- **2017 financial statements** – disclose upcoming GASB and fact it likely will be material
- **No audit guide yet (AICPA)**
- currently evaluating approach to testing to incorporate potential requirements

Impact on Financial Statements



Statement of Net Position		Governmental activities
		Ending amounts
ASSETS		
Cash and cash equivalents	\$	13,518,186
Investments		25,929,622
Receivables (net)		15,085,177
Capital assets (net of accumulated depreciation)		
Depreciable assets:		81,769,640
Non-depreciable assets:		88,253,120
TOTAL ASSETS		224,555,745
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions		1,050,000
Deferred outflows related to OPEB		980,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES		2,030,000
LIABILITIES		
Accounts Payable		6,538,206
Non-current liabilities:		
Current portion of long-term debt		1,680,000
Long-term debt (net of current portion)		21,660,000
Net pension liability		24,589,000
Net OPEB liability		19,875,654
TOTAL LIABILITIES		74,342,860
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions		6,589,000
Deferred inflows related to OPEB		3,569,782
TOTAL DEFERRED INFLOWS OF RESOURCES		10,158,782
NET POSITION		
Net investment in capital assets		146,682,760
Restricted for:		
Capital projects		11,705,864
Debt service		11,046,053
Unrestricted		(27,350,574)
TOTAL NET POSITION	\$	142,084,103

GASB 69

Government Combinations

K12 Application and Implications



- Valuation - basically at net carrying value (book value)
- Ypsilanti Community schools – new district created where 2 existed previously
- Inkster and Buena Vista – “liquidation” and transfer of operating assets
- Muskegon Heights/Highland Park – old plus new charter
- DPS – Old Co/ New Co
- EAA to DPS (July 1, 2017)
- Other Options – merger/consolidation of districts, annexation, transfer of operations
 - These changes create substantial legal, accounting and reporting questions

GASB 84

Fiduciary Activities

Effective June 30, 2020 Year End



What is a fiduciary activity for financial reporting purposes?

- 4 Types
 - Pension trust funds
 - Investment trust funds
 - Private purpose trust funds
 - Custodial funds
- Criteria
 - Does the government control the assets or not?
 - Who are the beneficiaries with whom a fiduciary relationship exists?
- If the activity meets the criteria, reporting presented with
 - Statement of fiduciary net position
 - Statement of changed in fiduciary net position
- Key question: Are student activity funds and scholarship programs fiduciary activities?

Uniform Guidance

Federal grants management and auditing

Audit Requirements Changes Effective NOW



- Audit Threshold = \$750,000
- Threshold for Reporting Audit Finding Questioned Costs = \$25,000
- Schedule of Expenditures of Federal Awards
 - Must include sub-recipient dollars by grant on the SEFA
 - Back schedule – is this still required. Stay tuned.
- Summary Schedule of Prior Audit Findings/ Corrective Action Plan
 - Must include BOTH financial statement and federal compliance findings
 - MDE requires this currently – so no change – YEAH!

Key Areas of Impact



- Certifications (not payroll certifications)
- Procurement
- Written policies
- Subrecipient monitoring

Certifications – Not Payroll Certifications



- Certifications are required:
 - To assure that expenditures are proper and in accordance with the terms and conditions of the Federal award and approved project budgets, the following must include a certification:
 - Annual and final fiscal reports
 - Vouchers requesting payment
 - Cost allocation plan or indirect (F&A) cost rate proposal
- The guidance provides **actual language** that **must be used**
 - For pass through funds – this is VERY important

Certification Examples



Certification required on:	Certified by:	Comments:
Annual and final fiscal reports or vouchers requesting payment.	An official who is authorized to legally bind the non-federal entity.	The FAQs indicate that it is up to each organization to determine who is legally authorized to bind the organization. <i>MDE position...who is the MEGS authorized official?</i>

MDE did incorporate this into their grant agreements / reimbursement requests

Certification



“By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729-3730 and 3801-3812).”

Synopsis of Changes to Procurement Standards



	The new methods	What Does This Mean To The District?
Procurement Standards	<p>Use of one of 5 methods</p> <ul style="list-style-type: none"> • Micro-purchases if <\$3,500* • Small purchase procedures – \$150,000 or lower required limit • Sealed bids (formal advertising) • Competitive proposals • Noncompetitive proposals – certain criteria <p>New conflict of interest policies (employee and organizational)</p> <p>*When adopting policy – be sure to add the micro-purchases level “amount of \$3,500 as stated and indexed annually”</p>	<ul style="list-style-type: none"> • Clarification on purchases < \$3,500 • All 5 methods are REQUIRED to be addressed in the procurement policy – ALL Districts will need to amend their policy. <p>Write or update conflict of interest policies</p>

Procurement – 5 methods



- **Micro Purchases**
 - Less than \$3,500 (annually indexed)
 - No quotes needed
- **Small Purchases**
 - Up to \$150,000
 - Rate quotations needed
 - No cost or price analysis required
- **Sealed Bids**
 - Greater than \$150,000
 - Construction projects
 - Price is a major factor in award
 - Formal advertising

Procurement – 5 methods (Cont'd)



- **Competitive Proposals**
 - Greater than \$150,000
 - Fixed price or cost reimbursement based
 - RFP with evaluation methods
 - When sealed bid not appropriate
- **Sole Source**
 - Unique in nature
 - Public emergency
 - Authorized by the agency (or pass through entity)
 - No competition

Written Policies



- General Procurement Standards (§200.318)
 - Written standards of conduct covering conflict of interest
 - Employee conflict of interest (did not change)
 - Organizational conflict of interest (new!)

- Competition – (§200.319)
 - Written procedures for procurement transactions.
Procurements must ensure all solicitations:
 - Contain clear and accurate description of requirements
 - Assure that minority, small business and women owned businesses are included
 - Identify requirements and all other factors to be used in evaluating bids

Subrecipient Awards



- Requirements for pass-through entities:
 - Evaluate subrecipient's RISK of noncompliance in order to determine the appropriate subrecipient monitoring AND monitor subrecipients
- Includes audit responsibilities that were in A-133
 - Review reports required by the pass-through entity
 - Follow-up to ensure subrecipient takes appropriate action on all deficiencies pertaining to the subaward
 - Issue a management decision for audit findings pertaining to subawards made by the pass-through entity
- Pass-through entity must:
 - Provide specific grant data elements, including CFDA number, indirect cost rate, sub-recipient or contractor.

Reminders and Observations



- Less than 3 months to get Board Policy in place
 - NEOLA – may need to edit (requirements are “policy” not “procedures”)
 - Existing purchasing policy – update with new terminology/requirements
 - Federal and non-federal (MDE) requirement – how do they co-mingle in your policy?
 - State level – micro purchases do not exist (only have bid threshold)
 - Federal Small purchases - \$150,000, State – bid threshold \$23,417
 - Federal – Services need to be bid / State – services do not
 - If existing purchasing policy more restrictive – do I need to change?
- Food Service Funds
 - Prior Approval of Fixed Asset Purchases
 - Equipment/capital asset purchases > \$5,000
 - Pre-approved list – document its on the list, good to go!
 - Other – need to send forms and get approval – BEFORE purchase
 - Focus is on expenditure behavior – more than ever!
 - Observing high level of scrutiny

Take-Aways / Reminders (Cont'd)



- MDE – Position Paper (dated February 2, 2017)
 - Tangible Personal Property purchased with grant \$\$
 - Requirement to track all tangible personal property purchases
 - No dollar value floor included in position paper
 - Tracking of:
 - Item
 - Serial Number (or other identification #)
 - Funding Source
 - Location
 - Disposition
- MDE Uniform Guidance Resources
http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html

ORS 3% contributions and FICA Issues

Quick Update

Status Update on ORS 3% and FICA



Two situations going on:

PA-75-2010 = old 3%, began 2010 through first pay
February 2013

- Still in court - issue of Constitutionality of 3% contributions

PA-300-2012 = began February, 2013, current 3%

- PA-300 – Issue of taxability of 3% contributions
- IRS has not formally issued published position – actions speak louder – now seeing consistent treatment
- If Districts withheld FICA, the IRS is refunding (2013 – 2015)
- 2016 = also being refunded.
- Overall message = If withholding FICA - keep filing for refunds!

Status Update on ORS 3% and FICA (cont'd)



PA-75 – Many Districts filed protective claims for 2010 – 2012

- Continue to wait for Michigan Supreme Court decision
- Unsure when Court will hear the case (possibly this summer?)
- IRS will not refund FICA on PA-75 3% – waiting on Court decision
- Supreme Court decision implications:
 - If deemed unconstitutional – 3% refunds? It's complicated....
 - If deemed constitutional – amount in escrow will apply to plan. Could still have refunds of FICA depending on Private Letter Ruling results

Status Update on ORS 3% and FICA (cont'd)



Statute of Limitations – Window for 2013 is about to close!

- Had until April 15, 2017 to file protective claim for 2013
 - If you received a refund for 2013 – you received it for PA-300 FICA paid only
 - Would have needed to file protective claim for PA-75 FICA paid for stub period
- Private Letter Ruling (PLR) filed with IRS by ORS, declined due to needing an employer
 - Dewitt volunteered to be employer for PLR – attorneys still working on this
 - Results will apply to BOTH FICA contributions made under the PA-75 and PA-300 plans
- PLR Implications –
 - If deemed taxable – most likely position applied would be prospective only (maybe!)
 - If deemed not taxable – finally a clear published decision from IRS!

Other Items

Sinking Fund Law Amendment



- Law amended (Sec 1212) November 9th, 2016
- Effective date: 91 days after signing - mid-March, 2017
- Prospective application AFTER effective date
 - Old millage, old law
 - New vote can update sinking fund allowability
- New Sinking Funds authorized can be used for purchases of
 - school security improvements
 - Includes capital improvement (cameras, lighting, locks, doors...)
 - provides also for mobile telephone applications to provide ability for personnel to communicate on site and connect to 911
 - does not include operation or personnel costs
 - acquisition or upgrading of technology (same rules under Sec 1531a)
- Tax cannot exceed 3 mills (was 5 mills)
- Levy cannot exceed 10 years (was 20 years)
- Additional guidance on reporting

Section 147c Reminders



Section 147c activity

- Remember to look at how you are handling this activity through your general ledger
- “Clean up” your accrual account NOW as you do your final budgets
- Districts continue to have surprises when they try to get the accrual right

Section 147c Reminder – What Should the Balances be at June 30?



Section 147a/c

- Accruals
 - 147c due from the State of Michigan (receivable) - July and August payment from the State Aid Status Report
 - 147c due to ORS (payable) - Equal to the July and August 147c state aid receivable, PLUS June if not paid until July
 - July and August District paid retirement on “26 pay staff” at the District rate they will PAY
 - District paid Retirement due and unpaid on all staff for pay periods through June 30
 - Final Expenditure – cash contribution to MPSERS, 147c appropriation, 6/30 accrued cash contributions (generally July and August for teachers) plus June 147c not paid until July
 - Track between Pension and OPEB

Audit Items to Pay Special Attention to...



- Fixed assets
- Construction in progress / retainage
- Impairment
- Capital leases – read those lease agreements!
- Early retirement incentives
- *As always...ask your auditors for workaids and advising early on to help! Goal = **NO SURPRISES!***

A glass jar filled with coins, a stack of books, and a graduation cap on a wooden surface against a blue background.

Thank you for your time!

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audit · tax · consulting · wealth management

Contact Me for Help



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