

The Latest GASB Implementation Guidance

Kansas Government Finance Officers Annual
Conference

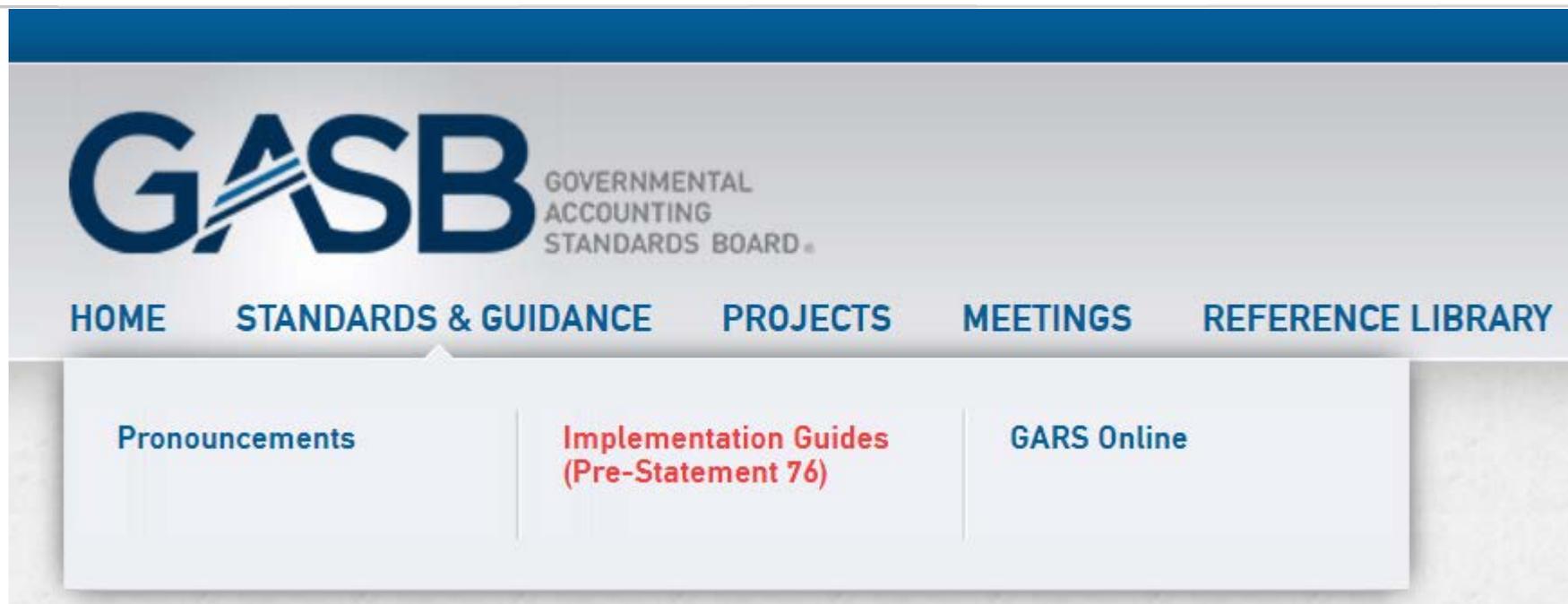
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CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS CONSULTANTS



Source of information



- All of the information was pulled directly from the GASB standards and implementation guides available online
- We will be covering a summary of new pronouncements and relevant implementation guidance

GASB Statement No. 74

- Title: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- Effective Date: Fiscal years beginning after June 15, 2016

GASB Statement No. 74

- Essentially applies requirements similar to those in GASB Statement No. 67 to OPEB Plans administered through trusts
- Two financial statements—the statement of fiduciary net position and the statement of changes in fiduciary net position—are required
- Additionally, notes and RSI similar to GASB Statement No. 67 are required

GASB Statement No. 75

- Title: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
- Effective Date: Fiscal years beginning after June 15, 2017

GASB Statement No. 75

- Applies requirements similar to GASB Statement No. 68 to OPEB employers
- Single employer and agent employers would report a net OPEB liability equal to the present value of projected benefit payments less the OPEB plan's fiduciary net position
- Cost sharing employers would report a liability equal to their proportional share of the plan's net OPEB liability
- Note disclosures and RSI similar to GASB Statement No. 68 are also required

Statement No. 82 Fixes

- For the RSI required by Statements No. 67 and 68, covered payroll (instead of covered-employee payroll) is to be presented
 - Covered-employee payroll = payroll of employees provided with pensions
 - Covered payroll = portion of compensation paid upon which plan contributions are based
- Any deviations from Actuarial Standards of Practice are not considered to be in conformity with Statements No. 67, 68 or 73

GASB Statement No. 83

- Title: *Certain Asset Retirement Obligations*
- Effective Date: For reporting periods beginning after June 15, 2018

GASB Statement No. 84

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



Types of Fiduciary Funds GASB 84

- Pension and OPEB trust funds
- Investment trust funds
- Private-purpose trust funds
- Custodial funds

Custodial Funds GASB 84

- Replace agency funds under current model
- For activity not held in a trust
- Unlike agency funds, custodial funds will have an “income statement”
- Unlike agency funds, custodial funds will have net position

GASB Statement No. 87

- Title: *Leases*
- Effective Date: For reporting periods beginning after December 15, 2019
- Establishes a single approach to accounting for leases that will eliminate the current operating and capital lease classifications

Lessee Accounting GASB 87

- Recognize a lease liability and an intangible asset at the beginning of a lease
- Lease liability measured at present value of lease payments over the lease term
- Intangible asset measured at the value of the lease liability plus any prepayments and certain indirect costs
- Lease liability reduced as payments are made
- Interest is accrued on lease liability
- Intangible asset amortized to expense over shorter of the life of the underlying asset or the lease term

2017-1: 4.18

- Q—A government includes the pension plan through which it provides benefits to its employees as a fiduciary fund in its financial report. The pension plan does not issue a stand-alone financial report. Should the government make the note disclosures and present the schedules of required supplementary information (RSI) required by Statement 67 for the pension plan, as well as the note disclosures and schedules of RSI required for an employer that provides benefits through the plan?
- A—Yes. In this circumstance, the presentation of information from two perspectives is required within the same report—first, from the perspective of an employer that provides its employees with benefits through the pension plan and, second, from the standpoint of the pension plan itself. Accordingly, in addition to applying employer reporting requirements, the government should include in its financial report information required by Statement 67 for the pension plan. However, footnote 9 or footnote 11 of Statement 67, as applicable, provides for coordination of employer and plan note disclosures or schedules of RSI within the employer’s financial report with the objective of avoiding unnecessary duplication of information within that report.

2017-1: 4.36 (slide 1 of 2)

- Q—A local government has an investment position in an external investment pool. How should the local government’s investment position be categorized within the fair value hierarchy for purposes of the note disclosure requirement in paragraph 81a(2) of Statement No. 72, *Fair Value Measurement and Application*?
- A—If the external investment pool is compliant with paragraph 4 of Statement No. 79, *Certain External Investment Pools and Pool Participants*, and for financial reporting purposes elects to measure all of its investments at amortized cost, the local government’s investment position should not be measured at fair value. Instead, it should be measured at amortized cost in accordance with paragraph 41 of Statement 79 and, thus, should not be categorized within the fair value hierarchy for purposes of paragraph 81a(2) of Statement 72.

2017-1: 4.36 (slide 2 of 2)

- If, instead, the external investment pool generally measures its investments at fair value in accordance with paragraph 5 of Statement 79 or paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, the local government's position should be measured at fair value in accordance with paragraph 41 of Statement 79 and paragraph 11 of Statement 31, as amended. This is the case regardless of whether the pool transacts with participants at a floating net asset value per share or a fixed net asset value per share (for example, \$1.00). Positions in those pools also are not required to be categorized within the fair value hierarchy for purposes of paragraph 81a(2) of Statement 72.

2017-1: 4.38

- Q—Paragraphs 22 and 25 of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establish the requirements for the display or disclosure of the purposes for which fund balance amounts have been restricted, committed, or assigned. At what level of detail should those amounts be reported?
- A—To provide for a consistent minimum level of detail within the governmental fund financial statements, it would be appropriate for governments to apply the same minimum level-of-detail consideration to both governmental fund expenditures and fund balances. Paragraph 87 of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, requires governmental fund expenditures to be classified at a minimum by “function.” Because paragraphs 22 and 25 of Statement 54 refer to *purposes* but do not elaborate on what that term was intended to mean when determining the minimum level of detail that should be reported, the guidance in Statement 34 should be applied to determine the minimum level of detail for those reporting requirements. Therefore, governments may provide fund balance information at a more detailed level without also having to do so for expenditures.

Example fund balance reporting (expenditures) – City of Columbus, OH

EXPENDITURES

Current:

General government	124,220	252	29,730	154,202
Public service	50,563	-	55,163	105,726
Public safety	554,287	-	4,223	558,510
Development	41,673	-	43,649	85,322
Health	23,065	-	29,235	52,300
Recreation and parks	37,693	212	87,392	125,297
Capital Outlay	7,190	-	249,579	256,769
Debt Service:				
Principal retirement	-	122,092	9,973	132,065
Interest and fiscal charges	-	54,720	4,844	59,564

Example fund balance reporting (City of Columbus, OH)

	General Fund	Special Income Tax	Other Governmental Funds	Total
Fund balances:				
Restricted for:				
Asset management	\$ -	-	62,556	\$ 62,556
Building, housing and economic incentive	-	-	139,266	139,266
Information technology capital projects	-	-	1,826	1,826
Life enrichment	-	-	47,074	47,074
Mobility options	-	-	222,257	222,257
Municipal court/Justice	-	-	4,195	4,195
Protection and enforcement	-	-	31,222	31,222
Waste management	-	-	11,133	11,133
Wellness and prevention	-	-	2,687	2,687
Other purposes	-	-	1,459	1,459
Total restricted	<u>-</u>	<u>-</u>	<u>523,675</u>	<u>523,675</u>
Committed to:				
Asset management	-	-	3,017	3,017
Building, housing and economic incentive	2,702	-	22,727	25,429
Casino	-	-	1,818	1,818
Community outreach	-	-	1,867	1,867
Debt service reserve	-	192,579	-	192,579
General governance	1,521	-	-	1,521
Life enrichment	-	-	2,402	2,402
Mobility options	-	-	5,776	5,776
Protection and enforcement	1,655	-	2,392	4,047
Wellness and prevention	-	-	1,185	1,185
Other purposes	-	-	5,550	5,550
Total committed	<u>5,878</u>	<u>192,579</u>	<u>46,734</u>	<u>245,191</u>
Assigned to:				
Building, housing and economic incentive	297	-	-	297
Job growth initiative	314	-	-	314
Public safety initiative	306	-	-	306
27th pay period	17,750	-	-	17,750
Total assigned	<u>18,667</u>	<u>-</u>	<u>-</u>	<u>18,667</u>
Unassigned	<u>114,090</u>	<u>-</u>	<u>(253)</u>	<u>113,837</u>
Total fund balances	<u>\$ 138,635</u>	<u>192,579</u>	<u>570,156</u>	<u>\$ 901,370</u>

2016-1: 4.77

- Q—A government utilizes tax increment financing (TIF) to encourage economic development. The provisions of the TIF agreement are (a) bonds are issued by the government to finance infrastructure improvements in a specific geographic area; (b) a baseline for sales tax revenues for the geographic area, including the proposed development, is established prior to the start of the project; and (c) the additional sales tax revenues above the baseline are specifically set aside for the payment of the bonds. Do the requirements of Statement No. 77, *Tax Abatement Disclosures*, apply to this TIF agreement?
- A—No. This arrangement does not meet the definition of a tax abatement under Statement 77 for several reasons. It is not an agreement with an individual or entity. Consequently, there are no individuals or entities that are required to perform any actions. Furthermore, the TIF agreement does not result in a reduction of the government's tax revenues. Rather, the additional tax revenues in the TIF area are earmarked for debt service on the bonds. It should be noted that the name of the transaction is not relevant to the determination of whether it is a tax abatement for financial reporting purposes. A transaction entitled *TIF*, *Payment in Lieu of Taxes*, or *as-of-right agreement*, for example, does not automatically include or exclude the transaction from the requirements of Statement 77.

2017-1: 4.40 (slide 1 of 2)

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

2017-1: 4.40 (slide 2 of 2)

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

2017-1: 5.1 (slide 1 of 4)

- Q—Are the requirements of Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, No. 40, *Deposit and Investment Risk Disclosures*, and Statement 72, as amended, applicable to all of the reporting entity's deposits and investments?

2017-1: 5.1 (slide 2 of 4)

- A—Except for certain component unit presentations subject to Statement 14, as amended, Statements 3 and 40, as amended, apply to all deposits with financial institutions and investments that are reported on the face of a governmental reporting entity's financial statements. Statement 72 applies to all deposits and investments that should be reported at fair value. In addition, paragraph 69 of Statement 72, as amended, provides for measurement of certain investments at other than fair value. Therefore, the Statements apply to deposit and investment transactions of all funds, including those for which the reporting entity is a custodian and that are reported in an agency, trust, or other fund—such as deferred compensation plan assets and pooled amounts invested by a state treasurer on behalf of local governments. (See also Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, and Question 1.52.1 in Implementation Guide 2015-1 concerning IRC Section 457 deferred compensation plan assets.)

2017-1: 5.1 (slide 3 of 4)

- Many of the deposits and investments that are subject to the disclosure requirements of Statements 3 and 40, as amended, and Statement 72 may be reported in the statement of net position/balance sheet using different titles. For example, some deposits and investments may be reported in the statement of net position/balance sheet as “cash and cash equivalents.” (See Question 1.26.6 in Implementation Guide 2015-1.) Others may be reported in the statement of net position/balance sheet using titles that do not identify their nature as deposits and investments. For example, securities held as escheat property may be reported without specific identification of the nature of the item. Regardless of how those securities are titled, if they meet the definition of an investment, they are subject to the measurement and disclosure requirements of Statements 3 and 40, as amended, and Statement 72.
- Sometimes questions arise as to whether annuity contracts that are in the name of lottery prize winners are subject to the disclosure requirements of Statements 3 and 40, as amended, and Statement 72. If they are reported in the government’s financial statements, they are subject to those requirements. Further, Statements 3, 40, and 72, as amended, apply to deposits and investments held by another entity for a government—for example, amounts held by fiscal agents for bond payments and reserves—if they are reported on the face of the government’s financial statements.

2017-1: 5.1 (slide 4 of 4)

- Statements 3, 40, and 72, as amended, also apply to deposits and investments of component units included in a reporting entity's financial statements, although the manner in which they are applied should consider the requirements of Statement 14, as amended. Specifically, Statement 14 requires that disclosures for discretely presented component units be made separately from disclosures for the primary government and its blended component units. Applying the requirements of Statement 14 also may result in not presenting disclosures required by Statements 3 and 40, as amended, and Statement 72 for some discretely presented component units. (See Question 1.4.5 in Implementation Guide 2015-1 about disclosures for discretely presented component units.) Disclosure requirements do not apply to deposits and investments that are not reported in the statement of net position/balance sheet—for example, amounts held by escrow agents on debt that is reported as defeased in substance in accordance with Statements No. 7, *Advance Refundings Resulting in Defeasance of Debt*, and No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, as amended.

2017-1: 5.5

- Q—Does Statement 67 require that stand-alone financial reports be issued for defined benefit pension plans?
- A—No. Statement 67 establishes standards that apply to financial reporting for defined benefit plans that are administered through trusts that meet the criteria in paragraph 3 of that Statement, including stand-alone financial reports, when such reports, prepared in conformity with generally accepted accounting principles (GAAP), are issued.

2017-1: 5.6

- Q—A city reports a single-employer defined benefit pension plan as a pension trust fund in its basic financial statements. The plan issues a stand-alone financial report prepared in conformity with the requirements of Statement 67, as amended. Does the city have to apply all the requirements of Statement 67, as amended, for the pension trust fund?
- A—No. Although, in general, Statement 67, as amended, applies to financial reporting of the plan in stand-alone financial statements and in circumstances in which the plan is included as a pension trust fund of another government, for purposes of including the pension plan as a pension trust fund in the city's financial report, footnotes 9 and 11 of Statement 67 limit the applicability of the note disclosure and RSI requirements of that Statement to circumstances in which defined benefit pension plan financial statements are presented *solely* in the financial report of the city. Therefore, because a stand-alone plan financial report is prepared in conformity with the requirements of Statement 67, as amended, that Statement does not require that the city include the information identified in the detailed disclosure and RSI requirements of Statement 67, as amended, as part of its presentation of the pension plan as a pension trust fund in its financial report. Paragraph 106 of Statement 34, as amended, requires that, in this circumstance, the notes to the financial statements of the city include information about how to obtain the stand-alone plan financial report.

2017-1: 5.30

- Q—A historical treasure donated 10 years ago was not recorded. Its acquisition value, determined as of the date of the donation, was \$500,000. If the treasure instead had been donated in the current year, it is estimated that its acquisition value would be \$1,500,000. When this asset is initially reported in the current year as a correction of an error, should it be reported at \$500,000 or \$1,500,000?
- A—Donated assets should be reported at acquisition value, which is determined as of the date of donation, as stated in paragraph 79 of Statement 72. The value of \$500,000 is the appropriate amount at which to report the donated historical treasure in the current year.

2017-2: 4.5

- Q—If no trust (or equivalent arrangement) that meets the criteria in paragraph 3 of Statement 74 has been established for a defined benefit OPEB plan, is OPEB plan reporting required?
- A—No. If the OPEB plan is not administered through a trust (or equivalent arrangement) that meets the criteria in paragraph 3 of Statement 74, there is no OPEB plan reporting (that is, a statement of fiduciary net position, a statement of changes in fiduciary net position, notes to basic financial statements, or RSI for the OPEB plan in accordance with the requirements in paragraphs 19–57 of Statement 74). However, paragraphs 58 and 59 of Statement 74, as applicable, establish reporting requirements for any assets accumulated for OPEB purposes. Specifically, those paragraphs require that such assets continue to be reported as assets of the employer or nonemployer contributing entity associated with the OPEB plan and provide that if a government holds such assets for others, they be reported in an agency fund.

2017-2: 4.24

- Q—Are workers' compensation benefits considered OPEB for financial reporting purposes?
- A—No. Workers' compensation benefits are not provided as compensation for employee service. Therefore, they do not meet the definition of a postemployment benefit and should not be classified as OPEB for financial reporting purposes. Rather, for benefits that are not OPEB, Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, establishes requirements for insurance-related activities associated with risks of loss from "job-related illnesses or injuries to employees" (paragraph 1e of Statement 10). Therefore, workers' compensation benefits should be accounted for in accordance with the requirements of that Statement, as amended.

2016-1: 4.3

- Q—Are cash equivalents subject to the fair value disclosure requirements of Statement 72?
- A—Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, cash equivalents are measured at other than fair value (including amortized cost) and, consequently, are not subject to the fair value disclosure requirements of Statement 72. Specific exceptions to fair value measurement for some investments are described in paragraph 69 of Statement 72. Examples of such investments include certain money market investments and nonparticipating interest-earning investment contracts, such as certain nonnegotiable certificates of deposit (CDs). If a cash equivalent is measured at fair value, the fair value disclosure requirements of Statement 72 apply.

2016-1: 4.5

- Q—Most CDs are characterized in paragraph 8 of Statement 31 as nonparticipating interest-earning investment contracts. What disclosure requirements apply to nonparticipating interest-earning investment contracts?
- A—A nonparticipating interest-earning investment contract is not negotiable and has redemption terms that do not consider market rates. That form of CD is a type of investment that is a deposit. The required disclosures for deposits, such as those about deposit policies and custodial credit risk (paragraphs 6 and 8 of Statement 40, respectively), should be made.

2016-1: 4.25

- Q—In what situations does Statement 31, as amended, require or allow defined benefit pension plans to report investments at cost or amortized cost?
- A—Defined benefit pension plans should follow the interest-earning investment contract guidance found in paragraph 8 of Statement 31, which indicates that nonparticipating contracts should be reported using a cost-based measure. They also can apply the provisions of paragraph 9 of Statement 31 that allow for money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less to be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

2016-1: 4.29

- Q—Can resources held as restricted assets or in sinking or reserve funds be considered investments under the provisions of Statement 31, as amended, and Statement 72?
- A—Yes. The definition of an investment in paragraph 64 of Statement 72 applies to restricted assets, sinking funds, and reserve funds that include securities or other assets acquired for income or profit, even if those assets are specifically purchased for a dedicated purpose, such as a debt service obligation. (See also Question 6.4.4 in Implementation Guide 2015-1.)

2016-1: 4.31

- Q—If a debt security is not actively traded, should a government measure the security at fair value, or can it use a cost-based method?
- A—A government should measure the security at fair value. Lack of market activity does not prevent the government from determining the fair value of those securities. The determination of the fair value of a thinly traded debt security should be based on the requirements in paragraphs 45–48 of Statement 72.

2016-1: 4.37

- Q—Some capital assets produce income but are, nevertheless, classified as capital assets. What are examples of such capital assets?

- A—The following are examples of circumstances in which capital assets would not meet the definition of an investment in paragraph 64 of Statement 72 because the present service capacity of the assets is not based solely on the assets' ability to generate cash or to be sold to generate cash:
 - a. An airport authority, in its purpose to serve the traveling public, owns passenger terminals and hangars that yield lease income.
 - b. A water utility, in its purpose to provide clean water to its citizens, owns a water-treatment plant and a distribution system that produces income from the sale of water.
 - c. A state government, in its purpose to protect the environment, owns land surrounding a waterway that produces income from leased easements.

2016-1: 4.38

- Q—Can different governments arrive at different conclusions regarding the classification of similar assets?
- A—Yes. A government's purpose for acquiring a particular asset is key to identifying it as an investment. For example, a retirement plan may own a building whose present service capacity is based solely on its ability to generate cash. In that circumstance, the building is classified as an investment. On the other hand, a local government may own a building that is rented to individuals in the provision of low-income housing. In that circumstance, the building is not considered an investment.

2016-1: 4.39

- Q—A city government owns a five-story office building. Three floors are occupied by city agencies, and two floors are leased to a retail merchant for the sole purpose of rental income. How should the building be classified?
- A—The classification of the office building depends on the unit of account determined by the city's accounting policy that reflects the level of aggregation or disaggregation of the city's real estate properties for measurement, recognition, and disclosure purposes. If the unit of account is the building, the building would not meet the definition of an investment because the present service capacity of the building is not based solely on its ability to generate cash. In that circumstance, the building would be classified as a capital asset. If the unit of account is individual floors, the floors occupied by the city should be classified as capital assets, and the leased floors that meet the definition of an investment should be classified as such.

2016-1: 4.42

- Q—What is the “one-year option” for money market investments and participating interest-earning investment contracts? How does the one-year option affect the valuation of those investments?
- A—The one-year option in paragraph 9 of Statement 31 relates to money market investments and participating interest-earning investment contracts that have a remaining maturity *at time of purchase* of one year or less, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Statement 31, as amended, allows those investments to be reported at amortized cost. Governmental external investment pools are prohibited from applying the one-year option for money market investments and participating interest-earning investment contracts. (See also Question 6.40.3 in Implementation Guide 2015-1.)

2016-1: 4.43

- Q—Treasury bills and commercial paper do not pay interest but instead are purchased at a discount. How does fair value accounting treat income from non-interest-bearing investments?
- A—Fair value accounting limits interest income to an investment's stated interest or coupon rate. After such an investment is measured at fair value, the market takes into account accreted discounts. Accordingly, accretion or amortization of discounts is not necessary; amortization has already been considered in the net increase (decrease) in the fair value of investments. Notwithstanding the foregoing, Statement 31, as amended, allows many non-interest-bearing investments to be reported at amortized cost. Amortized cost issues are discussed in Questions 6.14.1–6.14.3 in Implementation Guide 2015-1.

2016-1: 4.45

- Q—Entities other than governmental external investment pools may report money market investments or participating interest-earning investment contracts at amortized cost if they have remaining maturities of one year or less at the time of purchase. If a money market investment has a remaining maturity at date of purchase of 18 months but only 3 months at the date of the statement of net position, can it be reported using amortized cost?
- A—No. The option in paragraph 9 of Statement 31 applies only to money market investments and participating interest-earning investment contracts that have a remaining maturity of one year or less *at the time of purchase*. Statement 31, as amended, does not provide for entities other than governmental external investment pools to change the valuation of a money market investment for financial reporting purposes from fair value to a cost-based measure.

2016-1: 4.51

- Q—Can all investment income—interest, dividends, and changes in fair value—be aggregated and reported as investment income in the change statement, or should the components of investment income be reported separately?
- A—All components of investment income may be presented as an aggregate amount, even for defined benefit pension plans, as provided for in paragraph 23 of Statement 67.

Investment income

Exhibit 4

City of Columbus, Ohio
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended December 31, 2016
 (amounts expressed in thousands)

	General Fund	Special Income Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Income taxes	\$ 630,266	\$ 210,089	\$ -	\$ 840,355
Property taxes	44,233	-	-	44,233
Grants and subsidies	-	-	117,452	117,452
Investment income	6,625	-	471	7,096
Licenses and permits	14,759	-	25,962	40,721
Shared revenue	27,980	-	43,731	71,711
Charges for services	63,365	-	43,403	106,768
Fines and forfeits	18,889	-	5,365	24,254
Payments in lieu of taxes	-	-	31,152	31,152
Miscellaneous	6,927	754	51,314	58,995
Total revenues	<u>813,044</u>	<u>210,843</u>	<u>318,850</u>	<u>1,342,737</u>

2016-1: 4.53

- Q—Prior to the implementation of Statement 72, a government classified as capital assets certain assets that meet the definition of an investment in paragraph 64 of Statement 72. Likewise, the government classified as investments certain assets that do not meet the definition of an investment in Statement 72. Should the government reclassify those assets upon implementation of Statement 72?
- A—Yes. As part of the initial implementation of Statement 72, the government should evaluate its capital assets, investments, and other assets to determine if any of those assets should be reclassified based on the definition of an investment in Statement 72. For this purpose, the classification should be based on the facts and circumstances at initial implementation of the requirements of Statement 72, rather than on those in existence at the time the asset was initially acquired. After those classifications have been established as part of the implementation of Statement 72, they should not be changed for financial reporting purposes.

2016-1: 4.55

- Q—A city requires developers of new residential neighborhoods to build the infrastructure and then donate it to the city at the completion of the project. How should the city determine the cost of those assets?
- A—Paragraph 79 of Statement 72 requires that donated capital assets be reported at acquisition value, which is determined as of the date of donation. In the example addressed in this question, the developer's cost for the infrastructure in new residential neighborhoods would be an acceptable method that could be used to determine acquisition value, but other methods—for example, an estimate of the cost associated with the construction of the infrastructure made by the city's public works department—also may be acceptable.

2016-1: 4.56 (1 of 2)

- Q—Streets that have been constructed by a developer and donated to a government comprise both the infrastructure and a right-of-way easement on the land upon which the infrastructure sits. The infrastructure should be reported at its acquisition value, which is determined as of the date of donation. Should a separate asset be reported for the right-of-way easement associated with the donated infrastructure? If so, how should the value of that asset be measured?
- A—Yes. A separate asset for the right-of-way easement should be reported at acquisition value in accordance with paragraph 79 of Statement 72. (See Question 4.57 about classifying right-of-way easements associated with infrastructure.) As described in Question 4.54, the acquisition value of an asset is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction. In the case of right-of-way easements for roads, however, generally the only willing buyer is the government. **(cont. on next slide)**

2016-1: 4.56 (2 of 2)

- **(cont. from previous slide)** Therefore, the outlay the government would have made to acquire the easement in an exchange transaction can be used to determine its acquisition value. In most cases, a right-of-way easement for a road is, in substance, equivalent to ownership of the land because the grantor of the easement retains virtually no right of use. Accordingly, the acquisition value of the associated land could be used to approximate the outlay that would have been incurred by the government had it acquired the donated right-of-way easement through an exchange transaction and, therefore, could be used as a basis to determine the acquisition value of the right-of-way easement. There also may be other reasonable methodologies for determining the acquisition value of a donated right-of-way easement. However, forgoing the determination of the acquisition value of a donated right-of-way easement and instead arbitrarily assigning the easement a nominal value would be inappropriate.

2016-1: 4.58

- Q—A city purchased land from another government for the sum of \$1. How should the city report this acquisition?
- A—The purchase price of \$1 does not meet the definition of an exchange transaction as defined in paragraph 1 of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. An exchange transaction is one in which each party receives and gives up essentially equal values. The substance of the transaction is that the city received a donation of land (a nonexchange transaction), and the city should report the land at acquisition value as required by paragraph 79 of Statement 72.

2016-1: 4.71

- Q—How should donations of capital assets to governments be recorded in governmental funds?
- A—The measurement focus of governmental funds is on current financial resources. Therefore, if a capital asset is donated to a government and is held for use in general government operations, no asset or revenue is recorded in the governmental fund. If a capital asset is donated to a government and is being held for sale, it would be recorded at acquisition value, which is determined at the date of donation, as an asset of the fund that will receive the sales proceeds and as revenue. (See Question Z.54.2 in Implementation Guide 2015-1 about fund balance classification.)

2016-1: 4.73

- Q—A city charges a storm water fee that is restricted by enabling legislation for storm water activities. Storm water activities, as defined in the legislation, include capital projects and operational expenditures. The costs are not expected to be fully recovered through the fee because approximately 25 percent of the costs will be covered through a general fund transfer. Also, depreciation and debt service are not expected to be recovered through the fee. Can the city use a special revenue fund to account for the storm water activity?
- A—Yes. Use of an enterprise fund is not required. Even though the restriction on the use of the fees includes spending for capital projects, the fees are not restricted specifically to capital projects, as discussed in paragraph 30 of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, so a special revenue fund can be used to account for the storm water operation.