Technical Update

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audit • tax • consulting • wealth management

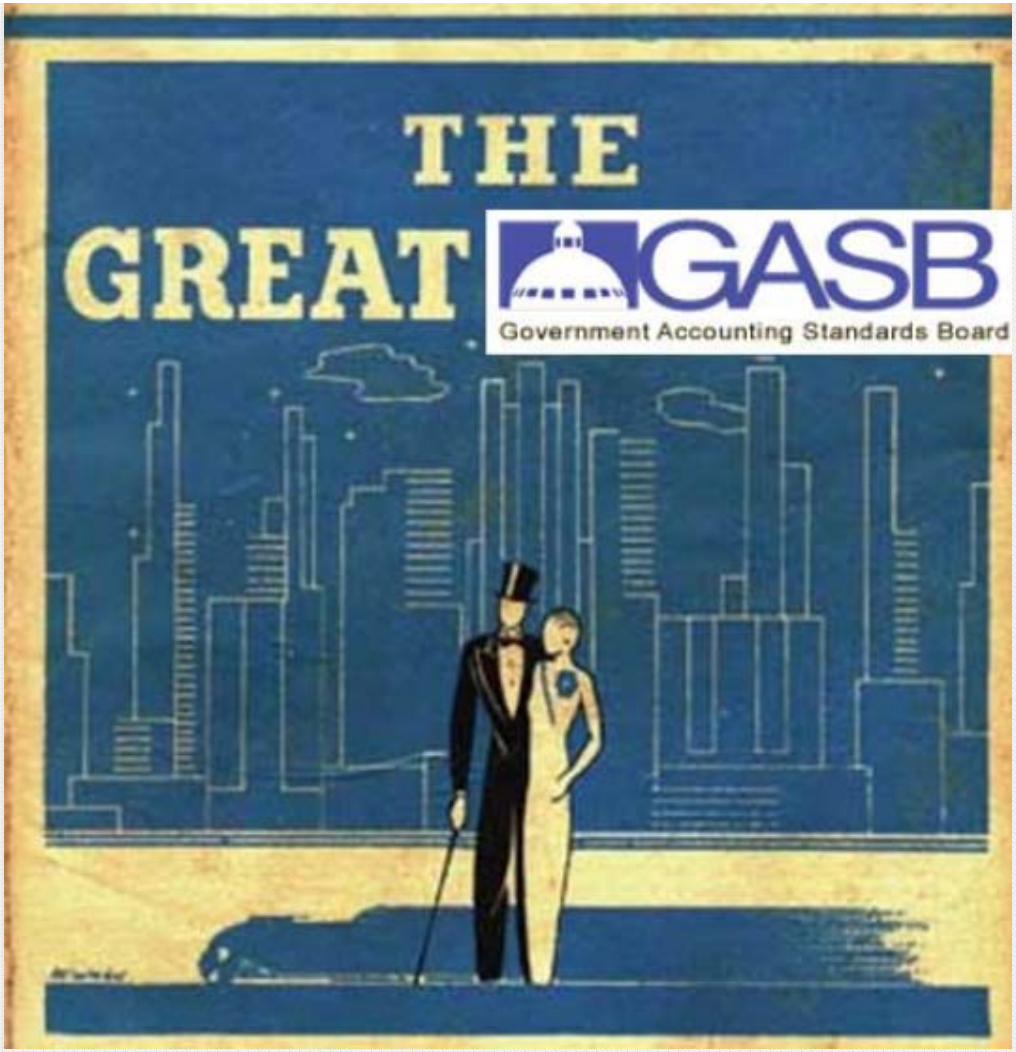
KATIE THORNTON, CPA

DANA COOMES, CPA

Agenda

- GASB Standards Update
- GASB Agenda Items
- Federal Update
- FASB Exposure Draft Update
- 1098-T Reporting
- Internal Audits

GASB Standards Update



Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
68- Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	6/30/15	Participant employers in pension plans (NOT OPEB) – recording the net pension liability (unfunded portion) and expands footnote and RSI reporting	Significant (Year 2)
69- Government Combinations and Disposals of Government Operations	6/30/15	Merger - Use of carrying values to measure the assets and liabilities. Acquisition - Assets acquired and liabilities assumed generally to be valued at their acquisition values.	Not significant
70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees	6/30/14	Improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.	Not significant

Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68	6/30/15	Accounting for contributions made by employer to pension plan after measurement date of the plan's net pension liability (deferred outflow of resources, if practical to determine amount)	Not significant in Year 2
72 – Fair Value Measurement and Application	6/30/16	Addresses accounting and financial reporting issues related to fair value measurements and introduces the concept of hierarchy of valuation inputs	Significant (disclosure)
73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	6/30/16	Pulls in additional defined benefit pension plans to report under GASB 68 (such as single employer plans not in a trust).	Not significant

Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions	6/30/17	Guidance for recording and reporting for the Plan's themselves	Insignificant
75 – Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions	6/30/18	Participant employers in OPEB plans – recording the net OPEB liability (unfunded portion) and expands footnote and RSI reporting	Very Significant
76 – The Hierarchy of GAAP for State and Local Governments	6/30/16	Reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP	Insignificant

Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
77 – Tax Abatement Disclosures	6/30/2017	Increases disclosures for tax abatements, including tax type and amounts	Might be Significant Disclosures
78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans	6/30/17	Pulls in additional multi-employer plans to report under GASB 68 (Taft-Hartley plans – which include several employers and a labor union).	Insignificant
79 – Certain External Investment Pools and Pool Participants	6/30/17	Establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes	Insignificant
80 – Blending Requirements for Certain Component Units	6/30/17	Amends the blending requirements for the financial statement presentation of certain component units of all state and local governments	Insignificant

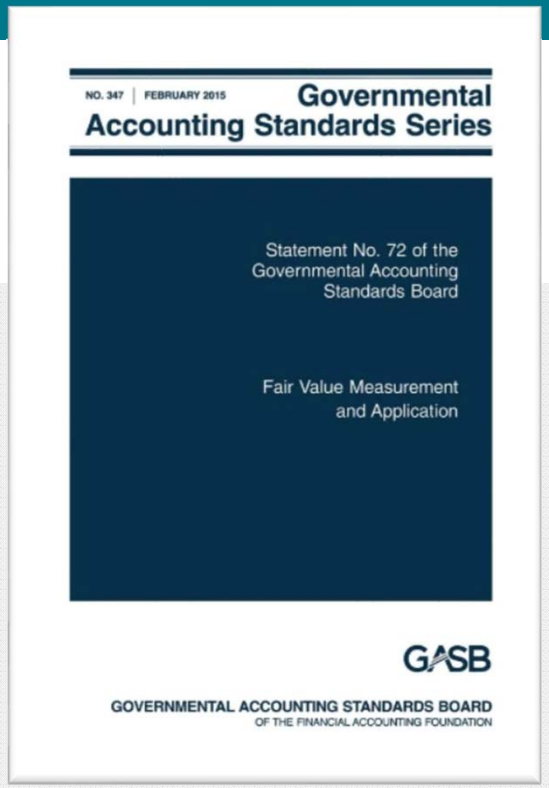
GASB 68 – Year 2 considerations

- Targeted timing for final issuance by ORS and OAG – early July
- Deferred inflows and outflows –
  - Concept of layers for tracking/amortizing
  - Will report most deferreds gross
  - Only can net investment deferred
- New deferred for change in proportionate share

GASB 68 – Other

- OAG testing
  - Confirmations of Contributions – April
  - Census Testing - Expected to occur in May and Completeness testing
- Reporting of the liability
  - Use of Separate Fund
  - General Fund
- Board meetings should be on time this year
- Monitor ORS for future communication

GASB Statement 72



- Comprehensive guidance on fair value measurement
- Narrowly scoped guidance on fair value application
- Issued February 2015
- Effective for periods beginning after June 15, 2015 (JUNE 30, 2016 year ends are first!)
- Most significant impact – Disclosures in your financial statements

GASB 72 – Investments, defined

- The statement generally requires investments to be measured at fair value
  - An investment is defined as “a security or other asset that a government holds primarily for the purpose of income or profit *and* its present service capacity is based solely on its ability to generate cash or to be sold to generate cash.”
- The investment designation would be made at acquisition and would remain for the life of the asset, even if usage changes over time.
  - An asset initially reported as a capital asset and later held for sale would not subsequently be reclassified as an investment

Fair value – Investments

- Investments versus capital assets
  - Capital assets provide services directly. Capital assets provide services directly to the government's constituency
  - Investments do not provide services directly. Investments can be used to pay for goods or services

GASB 72 – Impact to You

- Outside of the investment portfolio, does the College have any assets that meet the definition of an investment for the first time?
  - holds primarily for the purpose of income or profit *and*
  - its present service capacity is based solely on its ability to generate cash or to be sold to generate cash."
- Any property held as investment?
- Any property that is rented out?

Fair value – Investments

Implications of the changed "investment" definition:

Governments will need to reassess whether something really is an investment.

- Example: Conference center owned by community College. College uses part of the conference center for educational purposes; however, building is rented out 80% to others for income/profit.
- Previously considered capital asset
- GASB 72 treatment – may conclude this is really an investment under GASB 72
  - Held primarily for income or profit (80% rented out)
  - Present service capacity is based solely on its ability to generate cash

Fair value – Investments

Implications of the changed “investment” definition

- Overall, a government will need to review its assets for consideration of meeting the investment definition, which could then result in an adjustment to fair value for the first time.
- Changes made to comply with GASB 72 should be treated as an adjustment of prior periods (restated)
- If restatement is not practical, the cumulative effect should be reported as a restatement of beginning net position for the earliest period shown.

Fair Value Hierarchy



LEVEL 1 – quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date

LEVEL 2 – inputs, other than quoted prices, that are observable for an asset or liability, either directly or indirectly

LEVEL 3 – unobservable inputs for an asset or liability

Level 1 Examples

- Securities traded on an open market
  - Mutual funds – actively traded
  - Money Market mutual fund
  - US Treasury securities
  - Equity securities

Level 2

- Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Bonds valued by a pricing service that using matrix pricing
  - Level 2 input would be a price or yield of a similar bond

Level 3

- These are unobservable inputs and should be used only when relevant Level 1 and Level 2 inputs are unavailable
- Governments may use their own data to develop unobservable inputs if there is no information available without undue cost and effort
  - Capital asset impairment (nonrecurring adjustment to fair value)
  - Real estate - financial forecast (cash flows or earnings) developed using government's own data if there is no reasonably available information that indicates that market participants would use different assumptions

New Disclosures Required

- For each class or type of asset measured at fair value on a recurring and nonrecurring basis:
  - Fair value measurement at the end of the reporting period
  - The level of the fair value hierarchy (Level 1, 2 or 3)
  - A description of the valuation techniques
  - For significant changes in valuation techniques, the changes and the reason
- Nonrecurring basis must disclose the reason for the measurement

Disclosure Example

Note X – Significant Accounting Policies

As of June 30, 2016, the Organization retrospectively/prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

Disclosure Example

Note X – Fair Value Measurements

The Organization categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Disclosure Example

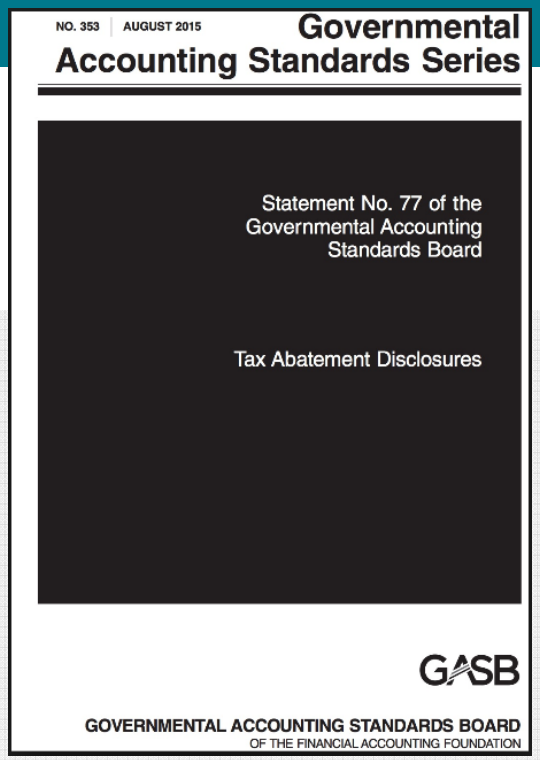
Investments and Derivative Instruments Measured at Fair Value
($ in millions)

		Fair Value Measurements Using		
	9/31/X1	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. Treasury securities	$ 85	$ 85		
Commercial mortgage-backed securities	50		$ 45	$ 5
Collateralized debt obligations	30		5	25
Residential mort[illegible]	149		24	125
Corporate bonds	93	9	84	
Total debt securities	407	94	158	155
Equity securities				
Financial service	150	150		
Healthcare industry	110	110		
Other	15	15		
Total equity securities	275	275		
Venture capital investments				
Direct venture capital—healthcare	53			53
Direct venture capital—energy	32			32
Total venture capital investments	85			85
Private equity funds– [illegible]	43			43
Total investments by fair value level	810	$ 369	$ 158	$ 283
Investments measured at the net asset value (NAV)				
Equity long/short hedge funds	55			
Event-driven hedge funds	45			
Global opportunities hedge funds	35			
Multi-strategy hedge funds	40			
Real estate funds	47			
Total investments measured at the NAV	222			
Total investments measured at fair value	$ 1,032			
Investment derivative instruments				
Interest rate swaps	$ 57		$ 57	
Foreign exchange contracts (liabilities)	(43)		(43)	
Total investment derivative instruments	$ 14		$ 14	

What do I do now?

- What do I do with this information from Investment Custodian?
  - Since the investment custodian will “suggest” the level, Colleges must review and conclude for themselves
  - Ensure it covers all College investments

GASB Statement 77



- Guidance for required disclosures regarding tax abatement agreements:
  - Names of the governmental entity that entered into the tax abatement agreement
  - Specific taxes being abated
  - Gross dollar amount of taxes being abated during the period
- Effective for June 30, 2017

GASB Statement 77 - Challenges

- Not “your” abatements –
  - Discloses agreements that are entered into by other governments and reduce College’s tax revenues
  - Issued by taxing authority (county, city, township)
- How to obtain the information
- Timing of obtaining the information

GASB Statement 77 – Example Disclosure

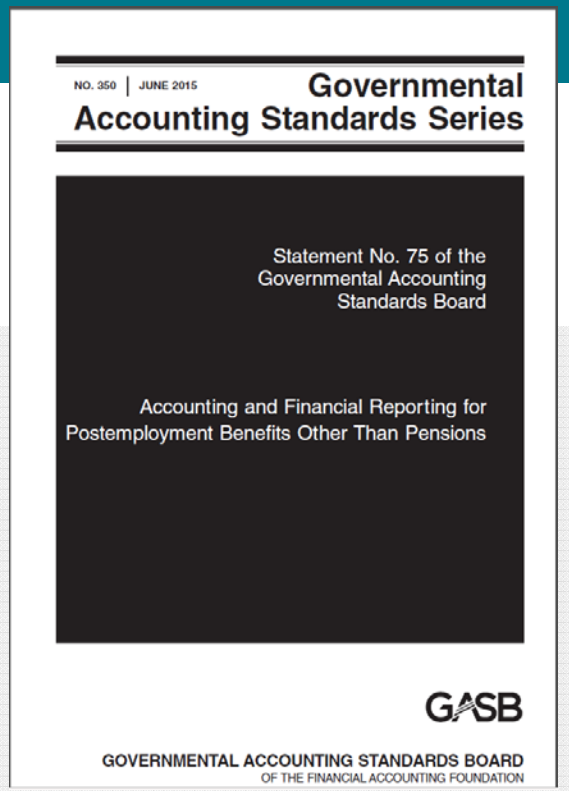
Note X. Tax Abatements

The Village enters into property tax abatement agreements with local businesses under the state Economic Development Opportunity Act of 20X1. Under the Act, localities may grant property tax abatements of up to 50 percent of a business' property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the Village.

For the fiscal year ended June 30, 20X7, the Village abated property taxes totaling $146,480 under this program, including the following tax abatement agreements that each exceeded 10 percent of the total amount abated:

- A 40 percent property tax abatement to a grocery store chain for purchasing and opening a store in an empty storefront in the business district. The abatement amounted to $97,500.
- A 50 percent property tax reduction for a local restaurant increasing the size of its restaurant and catering facility and increasing employment. The abatement amounted to $21,750.

GASB Statement 75



- Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)
- Similar to Pension standards
- MPSERS retiree health
- Most significant impact – Recording Net OPEB liability and related Deferreds; disclosures
- Issued June 2015
- Effective for June 30, 2018

GASB Statement 75

- MPSERS/ORS/OAG will issue similar schedules as GASB 68
- College to record proportionate share
- Year of implementation, will record the beginning Net OPEB liability as a restatement of Beginning Net Position as of July 1, 2017 at the bottom of the Statement of Revenues and Expenses and Changes in Net Position (income statement)
- Additional disclosures and RSI schedules

GASB Statement 75

- Difference from GASB 68 (all the rest is similar disclosures on OPEB liability, proportionate share, deferreds, discount rate/sensitivity, assumptions, assets/investments, RSI schedules)

Actuarial assumptions. The total OPEB liability in the June 30, 20X9 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	9.5 percent for 20Y0, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent for 20Y8 and later years

GASB Exposure Draft - Leases

- LEASES
  - The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance
  - Exposure Draft issued January 25, 2016 (comments due May 31, 2016)
  - Proposed effective date for Community Colleges – June 30, 2020

    (1) Leases would be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated)

GASB Exposure Draft - Leases

- LESSEE ACCOUNTING
  - Recognize for **all leases** (except short-term leases or if the lease transfers ownership):

    Lease Asset – equal to lease liability

    Lease Liability – present value of payments to be made
  - As payments are made:

    Reduce lease liability and recognize outflow of resources for interest on the liability

    Amortize the lease asset over shorter of lease life or useful life of the asset

GASB Exposure Draft - Leases

- LESSOR ACCOUNTING
  - Recognize for **all leases** (except short-term leases or if the lease transfers ownership):

    Lease Receivable – present value of payments to be received

    Deferred inflow of resources for Leases – equal to the lease receivable
  - As payments are made:

    Recognize interest revenue on the lease receivable and an inflow of resources from the deferred inflow or resources over term of lease

    Lessor would not derecognize the asset of the underlying lease

GASB Exposure Draft - Leases

- LEASES
  - Lessee Disclosures
    - Description of lease arrangements
    - Amount of lease assets recognized
    - Schedule of future lease payments to be made
  - Lessor Disclosures
    - Description of lease arrangements
    - Amount of revenue recognized from leases

GASB Exposure Draft - Pension

- PENSION ISSUES
  - Amends GASB 67, 68, 73

    (1) the presentation of payroll-related measures in required supplementary information,

    (2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standards of Practice for financial reporting purposes, and

    (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements

  - Proposed effective date – June 30, 2017

GASB Projects

- FINANCIAL REPORTING MODEL
  - Reexamination of Statements 34,35,37,41 and 46
  - Proprietary Fund:
    - Evaluate operating indicator alternatives
    - Separate presentation of operating and non-operating revenues and expenses.
  - MD&A:
    - Explore options for enhancing the financial statement analysis component
    - Consider the elimination of requirements that are boilerplate
    - Clarify guidance for presenting currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations
  - Current stage: Initial Deliberations; exposure draft to be issued in late 2019

Federal Update



The Eisenhower Executive Office Building, which houses the White House Office of Management and Budget (OMB)

OMB IN 2 LOCATIONS IN DC…

New Executive Office Building



Uniform Guidance

IT'S OFFICIALLY HERE

- Applies to grants awarded after 12/26/14
- Review the SEFA and identify which grants are under the old rules and the new rules
- Review key changes and due dates (next slides)
- Audit impact for June 30, 2016

Grants Reform

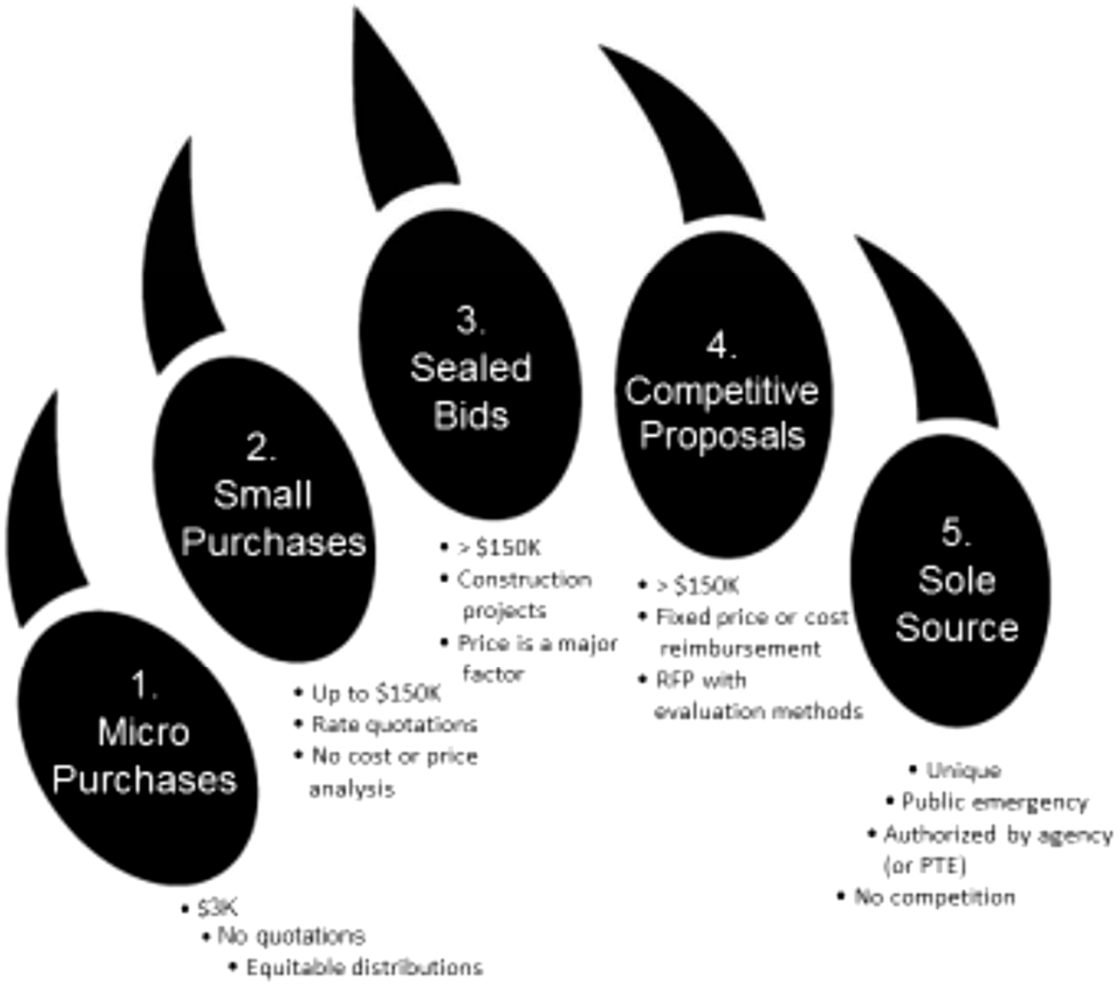
OUT WITH THE OLD……..	IN WITH THE NEW…….
Compliance	Performance
Process	Outcomes
Structure	Internal Controls
	Strengthening Accountability

Effective Dates - Procurement

PROCUREMENT STANDARDS CAN BE DELAYED BY **TWO** FULL FISCAL YEARS

- Example
  - Organization Year-End: June 30
  - Procurement Requirements may be implemented by June 30, 2017 (at latest)
    - **If you delay implementation, this decision must be documented!**
    - Auditors will audit procurement in accordance with documented standard
    - If delay, cannot use the micro-purchase threshold

Procurement "Claw" (Section 200.320)



General Procurement Standards (§200.318)

WRITTEN STANDARDS OF CONDUCT COVERING CONFLICT OF INTEREST

- Employee conflict of interest
- 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
- Identify requirements and all other factors to be used in evaluating bids

Procurement – Potential adoption challenges

- Procurement standards apply to purchases directly charged to the grant, and your organization could decide to have specific procurement procedures for grant-related purchases, and separate procedures for non-grant related purchases.
- Thresholds
  - It is ok to have a smaller threshold for obtaining competitive bids – UG says $150,000, but your organization could use $25,000.
  - Consider other grantor or states that might have a lesser threshold. You could also require quotations for purchases less than $3,000/$3,500.
  - More restrictive is OK. Less restrictive not OK.
- P-Cards and thresholds are critical to review and implement updated procedures for obtaining quotations for purchases over the micro-purchase limit

Subrecipient Management and Monitoring

AS A REMINDER, SUBRECIPIENT MONITORING REQUIREMENTS INCLUDE, BUT ARE NOT LIMITED TO:

- ***Perform risk assessments*** to determine appropriate monitoring
- ***Reviewing*** any required reports in order to meet its own award terms or conditions
- ***Following up*** to ensure that the subrecipient takes timely and appropriate corrective action on any deficiencies related to federal Awards
- Issuing management ***decisions*** on weaknesses found through audits only when those findings pertain to federal award funds provided to the subrecipient by the pass-through entity

Subrecipient Management and Monitoring

EXAMPLE RISK MATRIX

XYZ Organization				
CFDA No. XX.XXX				
Program Year: 2015-2016	Subrecipients:			
Risk Questions:	#1	#2	#3	#4
General Assessment				
Is the entity new to managing grant funds?				
What is the rate of staff turnover at the entity?				
What is the extent of new personnel, particularly in the grants area?				
To what extent has the subrecipient developed or implemented new or substantially changed systems?				
Legal Assessment				
Is the entity involved in any active				

Subrecipient Management and Monitoring

EXAMPLE RISK MATRIX – CONCLUSION AT END

XYZ Organization				
CFDA No. XX.XXX				
Program Year: 2015-2016	Subrecipients:			
Risk Questions:	#1	#2	#3	#4
Conclusion				
Response *(consider imposing specific subaward conditions upon a subrecipient if appropriate such as providing training and technical assistance, performing on-site reviews of program operations, or arranging for agreed upon procedures)*				

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.

Certifications

REQUIRED WORDING

“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).”

Effective Dates – Indirect Cost Rates

INDIRECT COST RATES

- One time rate extension of federally negotiated indirect cost rate allowed of up to 4 years without further negotiation (must be approved)
- De Minimis 10% rate available
  - Can not have had an approved indirect cost rate previously
  - Assessment of facts may not be as easy as it appears

Indirect Cost Rates – De Minimis

HOW DOES THIS WORK?

Only if organization has never had a federally approved indirect cost rate

No formal approval from federal agency

Must be documented by organization internally

Must be disclosed in:

- Federal program audit report (footnote)
- Data Collection Form

Indirect Cost Rates – De Minimis

10% OF MODIFIED TOTAL DIRECT COSTS

Modified total direct costs (MTDC) means all:

- direct salaries and wages,
- applicable fringe benefits,
- materials and supplies, services, travel, and
- subawards and subcontracts up to the first $25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award).

Time and Effort Reporting



HOW BIG AN ISSUE IS THIS?

Questions to consider:

- Is time and effort system currently in place?
- Is your current system effective?
- Could it be more effective?

Audit Requirements – What does this mean to you?

- Effective with June 30, 2016 Community College audits
- Requirement for Single Audit and Type A threshold is now **$750,000** (may not need a Single Audit or may have less programs to be audited)
- Questioned costs reporting threshold increases to $25,000 from $10,000 (may have less findings to report)
- Organization must report subrecipient awards by grant on the face of the SEFA (totals by grant) and no longer in the footnote (will require additional time if have subrecipients)
- Method of program selection and program coverage requirements have changed for the auditor
- Low Risk Auditee definition has changed (may be easier to qualify!)

FASB Lease Standard Released (Foundations)

- Issued in February 2016
- Impacts Foundation leases (if any)
- Excludes short term leases (12 months or less)
- Record
  - “Right of use” lease asset
  - Lease liability
- Disclosures

FASB Exposure Draft (Foundation)

- NFP PROPOSED ASU
  - FASB decided to split its deliberation efforts into two phases:
    - Least controversial aspects of the exposure draft, including:
      - Net asset classification
      - Presentation of expenses – natural and functional
      - Disclosures on operating measure
      - Disclosures on liquidity
    - The second phase to address the areas of the exposure draft that created the most disagreement among respondents, including:
      - Presentation of operating measure on the statement of activities
      - Realignment of certain line items on the statement of cash flows

Form 1098-T Reporting

- IRS ALTERED THE FORM 1098-T
  - Implements the recent statutory change allowing colleges to certify they met the regulatory requirements for soliciting student taxpayer identification numbers at least one during the year
  - NACUBO pushed for the change to end the cycle of fine notices Colleges were receiving for missing or incorrect TINs
  - The 2016 form added a checkbox for filers to certify:

The instructions for the form read:

> **"Student's taxpayer identification number and checkbox.** If you are not able to obtain the student's taxpayer identifying number through the use of Form W-9S, Request for Student's or Borrower's Taxpayer Identification Number and Certification, or other substitute form, check the box. By checking the box and filing Form 1098-T with the IRS (for electronic filers), you certify under penalty of perjury that you have in good faith complied with the standards in regulation section 1.6050S-1 governing the time and manner of soliciting the taxpayer identification numbers of individuals. Filers who transmit paper forms to the IRS will make such certification by signing Form 1096 in conjunction with filing the returns with the boxes checked in the field designated for the student's identification number."

Internal Audit Considerations

- RISK ASSESSMENT
  - Users input (board members, senior management, deans, faculty, etc)
  - Risk Categories
    - Compliance
    - Financial
    - Operational
    - Fraud
    - Technology
    - Physical
    - Reputational

Internal Audit Considerations

- RISK ASSESSMENT
  - Common Higher/Certain Risks
    - Inadequate funding
    - Inadequate monitoring
    - Enrollment/Retention
    - Use of adjuncts
    - Lack of business continuity plan
    - Attracting/retaining qualified faculty and staff
    - Breach of confidentiality
    - Undefined strategic plan
    - Inadequate budget management
    - Conflict of interest

Internal Audit Considerations

- HOT TOPICS
  - Cyber security (expanded from audit of general controls)
  - Business disruption
  - Procurement (contracts and change orders)
  - Compliance
    - Federally funded equipment
    - Financial aid
  - Operational efficiency
  - Scholarships
  - Enrollment management
  - Human resources – total compensation and wellness

Department of Education Onsite - SFA

- ED HAS ISSUED SEVERAL NOTICES TO REVIEW HIGHER EDUCATION STUDENT FINANCIAL AID PROGRAMS
- COMMON FINDINGS
  - Consumer information disclosures
  - Return of title iv
  - Cleary act
  - Insufficient verification
  - Untimely enrollment reporting
  - FISAP reconciliations
  - Additional locations

Thank you for attending

KATIE THORNTON, CPA
Senior Manager
Plante Moran
517-336-7506
katie.thornton@plantemoran.com

DANA COOMES, CPA
Senior Manager
Plante Moran
586-416-4913
dana.coomes@plantemoran.com

plante moran
audit · tax · consulting · wealth management