Muni-*news*

a newsletter for Rhode Island municipalities

Issued jointly by the:

November 2015

- *Division of Municipal Finance, Department of Revenue*
- *Office of the Auditor General*

GASB 68 - *Implementation workshops planned*

The Employees' Retirement System of RI (ERSRI) and the Office of the Auditor General (OAG) have scheduled workshops to help municipalities understand and use the information provided by the OAG, ERSRI and its actuary for the state-administered pension plans in meeting their financial reporting responsibilities under GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions.* Three dates are scheduled to provide options that work with your schedule.

Dates:

- Monday, November 9 - 2:00 - 4:00PM
- Wednesday, November 18 - 2:00 - 4:00PM
- Wednesday, December 9 - 2:00 - 4:00PM

Location: ERSRI, 50 Service Avenue, Warwick, RI

The information that will be available to employers is summarized below:

Plan	Plan type	Covered employees	Employer information to meet GASB 68 reporting requirements
ERS Employees' Retirement System	Cost-sharing – multiple employer	Teachers	Auditor's report on: • Schedule of Employer Allocations – Teachers • Schedule of Pension Amounts by Employer (schedules include proportionate share information for recording beginning and ending net pension liability (asset), pension expense and related deferred inflows and outflows) Templates for journal entries, note disclosures, and required supplementary information schedules
TSB Teachers' Survivors Benefit	Cost-sharing –multiple employer	Teachers in LEA's that don't participate in Social Security	Auditor's report on: • Schedule of Employer Allocations • Schedule of Pension Amounts by Employer (schedules include proportionate share information for recording beginning and ending net pension liability (asset), pension expense and related deferred inflows and outflows) Templates for journal entries, note disclosures, and required supplementary information schedules
MERS Municipal Employees' Retirement System	Agent multiple employer	General employees and police and fire employees of participating employers	Actuarial reports prepared by Gabriel, Roder, Smith & Co. for each participating employer - include information for recording beginning and ending net pension liability (asset), pension expense and related deferred inflows and outflows Auditor's reports on: • Schedule of Changes in Fiduciary Net Position by Employer – Year ended June 30, 2014 • ERSRI management's assertions related to MERS census data Templates for journal entries, note disclosures, and required supplementary information schedules

Entities are encouraged to invite their auditors to a workshop. The goal of the workshops is to provide assistance and an opportunity for questions as you implement the GASB 68 requirements. Additional communications from ERSRI will provide links to the information when available on ERSRI's website www.ersri.org.

Are you presenting fund balance components correctly?

Since fiscal 2011, RI municipalities and regional school districts have been classifying fund balance on its financial statements into five categories as required by GASB Statement No. 54: nonspendable, restricted, committed, assigned, and unassigned. We highlight issues identified in review of the fiscal 2014 audit reports to remind you of certain GASB 54 requirements as you finalize your fiscal 2015 financial statements:

- The general fund is the only fund that should be reporting a positive unassigned fund balance (GASB 54, par. 17).
- A deficit in unassigned fund balance should be eliminated up to the point there is available assigned fund balance (GASB 54, par. 15 & 19).
- If restricted, committed, or assigned fund balances are displayed in the aggregate on the balance sheet, specific purposes information should be disclosed in the notes to the financial statements (GASB 54, par. 25).
- When the School Unrestricted Fund does not qualify as a special revenue fund and rolls up into the General Fund, the fund balance, at a minimum, should be reported as committed for education. (RI General Law 16-7-23: If State aid or local appropriations for education are not completely expended by fiscal year-end, the balance remains a surplus of the school committee and shall not revert back to the municipality).

Defining a deficit

RI General Laws 45-12-22.3 and 16-2-9(f) require a municipality or school district to notify the Auditor General and the Division of Municipal Finance when it is likely to end the fiscal year with a deficit in the general fund or the school unrestricted fund and to submit a plan to eliminate the deficit to the Auditor General for approval.

Within the context of the GASB 54 classifications, we define a deficit as a negative balance in the unassigned fund balance classification,

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regardless of whether the net of all fund balance classifications results in a positive fund balance.

Assigned fund balance should not be reported with a negative unassigned fund balance, as GASB 54 requires assigned fund balance to be eliminated before reporting a negative unassigned fund balance.

A deficit reduction plan is still required even when the balances in the other classifications, for example – committed, may be used towards elimination of the deficit. The plan shall explain the necessary action taken by the governing body and the amount used towards eliminating the deficit in the unassigned fund balance classification.

Email Rina DiBenedetto at rina.dibenedetto@oag.ri.gov with questions.

School News - UCOA

This article contributed by Cynthia Brown, RI Department of Education.

Currently, 64 entities (school districts, charter schools, state schools, and regional educational collaboratives) report their financial information in accordance with the Uniform Chart of Accounts (UCOA). The timeliness of UCOA upload file submissions has improved over prior years with more than half of the entities submitting their preliminary fourth quarter files within two weeks of the mid-July deadline. The number of coding errors on the files has also decreased significantly from prior years.

In connection with the annual audit, the auditors are engaged to perform certain agreed-upon procedures to test compliance with the UCOA requirements and to report the results from the tests performed. Timeliness of the data submissions is important, but the timeliness of the agreed-upon procedures report is critical to ensure the reliability of the data. UCOA data is used in a myriad of ways that include:

- calculation of state aid under the school funding formula and the categorical funding outside of the formula
- indirect cost rate application;
- development of per pupil rates for special education and total expenditures;
- maintenance of effort calculations for Title I, Special Education, and Impact Aid;
- federal reporting submitted by RIDE; and
- use of comparative UCOA data to inform local budget decisions.

As the UCOA upload process becomes more routine, the timeframe for reporting on the Agreed-Upon Procedures (AUP) engagement should coincide with the completion of the financial statement audit. Currently, the AUP report is often received many months later. "Final" fiscal 2015 UCOA files should have been uploaded on September 30, 2015. When required, due to audit adjustments or UCOA misclassifications noted during AUP testing, a post-audit UCOA upload file should be provided to RIDE. This post-audit file would be the subject of the reconciliation AUP to which the auditors would report.

Going forward, we will be providing some relief on the number of UCOA upload file submissions required for fiscal 2016:

Due Date	Filing Period Covered
1/15/2016	7/1/2015 – 12/31/2015
7/15/2016	Preliminary 7/1/2015 – 6/30/2016
9/30/2016	Final 7/1/2015 – 6/30/2016
Audit conclusion	All audit adjustments or errors identified from the agreed-upon procedures testing must be posted and a revised UCOA upload file submitted for 7/1/2015 – 6/30/2016

A formal communication will follow regarding the deadlines and the agreed-upon procedures.

Pensions – a GASB Exposure Draft may provide some relief

The Governmental Accounting Standards Board (GASB) has issued an exposure draft of a proposed amendment to GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (GASB 68).*

The amendment is in response to concerns that it would be difficult for governments to obtain the necessary information to comply with all the GASB Statement No. 68 requirements for certain multiple-employer defined benefit pension plans that are private or federally sponsored, such as the Laborers' International Union of North America (LIUNA) Pension Fund.

For these types of plans, the proposed amendment would establish separate standards:

- Pension expense and expenditures would be equal to the amount of required contributions.
- The Statement of Net Position should report the liability resulting from the difference between required contributions and actual contributions made. The Fund Financial Statements would recognize a payable to the extent it is normally expected to be liquidated with expendable available financial resources (for the unpaid required contributions).

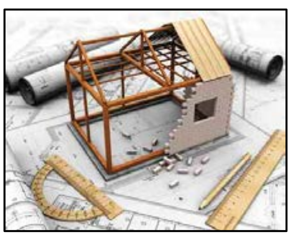
- Notes to financial statements should include basic, descriptive information that is similar to those note disclosures required by Statement No. 68, including information about required contributions and whether the employer is subject to any provisions regarding withdrawal from the pension plan.

- Employers would present a schedule of required contributions for the 10 most recent fiscal years as Required Supplementary Information.

The Exposure Draft may be downloaded from the GASB's website at www.gasb.org. Comments on the exposure draft are due to the GASB by November 16, 2015.

The Board concluded this Statement should be effective as soon as possible to address concerns raised by stakeholders and allow for preparers to apply this Statement concurrently with the required initial year of implementation of Statement No. 68. This proposed statement would be effective for reporting periods beginning after December 15, 2015 with earlier application permitted.

Tax Exemptions for Residential Property Development



The General Assembly enacted and Governor Raimondo signed into law a bill that creates an exemption from taxation for certain residential property developments which have not been completed or, not been sold and occupied.

H-5044, *Tax Exemptions for Certain Residential Property Development*, amends RIGL § 44-5-12 by adding subsection (a)(6) which allows for an exemption from taxation for improvements to certain qualifying residential development properties. The exemption applies to the assessment of taxes levied after December 31, 2015 for properties which construction permits have been applied for or received after July 1, 2015. For purposes of the exemption, developmental property has been defined as:

> *"…Real property on which a **single-family** residential dwelling or residential condominium is situated and said **single-family** residential dwelling or residential condominium unit is not occupied, has never been occupied, is not under contract, and is on the market for sale; or Improvements and/or rehabilitation of **single-family** residential dwellings or residential condominiums that the owner of such development property purchased out of a foreclosure sale, auction, or from a bank, and which property is not occupied…"*

Although this exemption applies to condominiums generally, it does not apply to common areas and facilities of condominium complexes described in RIGL § 34-36-27. The law also provides that any designation as development property may not exceed 2 tax years. Subsection (a)(6) also states that these provisions expire as of December 31, 2021.

A summary of H-5044 and all 2015 legislation can be found in the *Municipal Legislative Brief* on the Division of Municipal Finance's website at www.municipalfinance.ri.gov.

Start planning now – new GASB requirements for 2016

New GASB requirements applicable in fiscal years ending June 30, 2016 or later:

Statement No. 72 - *Fair Value Measurement and Application* - This Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. This will enhance the investment risk disclosures required by GASB Statement No. 40.

Statement No. 73 – *Accounting and Financial Reporting for Pension And Related Assets That Are Not Within the Scope of GASB 68* - This Statement provides guidance for pension plans that are ***not*** administered through a trust. The new standard's guidance for pension plans will take effect starting with the fiscal year beginning after June 15, 2015, with guidance for employers taking effect the following year. GASB Statement No. 73 also amends certain provisions of GASB Statements 67 and 68 and is effective for fiscal years beginning after June 15, 2015.

Statement 76 – *GAAP Hierarchy* This statement simplifies the hierarchy and explains how to identify the relevant literature within the hierarchy. While this statement has no direct impact on financial reporting it clarifies the ranking of various technical guidance within GAAP.

For more detailed information, visit the GASB website at www.gasb.org/.

Tax Refund Offset Program

What is it? - The Income Tax Refund Offset Program is a debt collection program administered by the Rhode Island Department of Revenue, Division of Taxation. This program allows the Division of Taxation to intercept state income tax refunds and apply them to outstanding liabilities owed to municipal entities.

How can the tax refund offset program help municipalities? This program helps maximize tax collections while keeping costs down. Participating municipalities typically receive a large number of payments from delinquent taxpayers after the initial notification of this program to delinquent taxpayers.

Who participates? Currently, nine municipalities participate in the refund offset program. The municipalities are Bristol, Burrillville, Coventry, East Providence, Pawtucket, Richmond, Tiverton, West Warwick, and Woonsocket where a combined $1.5 million in delinquent liabilities has been collected since the program started.

For more information: Contact Jacques Moreau, Chief of the Compliance & Collections Section in the Division of Taxation at jacques.moreau@tax.ri.gov. You can also use our website at www.tax.ri.gov/.

Tax Abatement Disclosures

GASB Statement No. 77 on Tax Abatement Disclosures is not effective until fiscal 2017, but we highlight it here because you may need some lead-time to accumulate the information to be disclosed beginning in the fiscal 2017 financial statements. GASB provides a summary of the Statement on its website that we have repeated below:

What is a tax abatement? GASB Statement No. 77 applies to transactions involving an agreement between at least one government and a taxpayer. The government reduces—or abates—the taxes the taxpayer otherwise would owe. The taxpayer, in turn, takes a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Why do governments grant tax abatements? Governments generally agree to abate or reduce the taxes of businesses and other taxpayers to promote economic development, job growth, redevelopment of blighted or underdeveloped areas, and other actions that are beneficial to the government or its citizens.

Why did the GASB issue guidance on tax abatement disclosures? The guidance is designed to improve financial reporting by giving users of financial statements access to useful information about government tax abatements that is generally not publicly reported.

Many state and local governments currently have tax abatement programs in place and the effects of tax abatements on their financial health and ability to raise revenue can be substantial. However, without the kind of required disclosures the GASB is requiring, it is difficult at present to discern the magnitude and nature of the effects of those agreements.

What is the GASB requiring governments to disclose? Statement No. 77 requires that governments disclose essential information about the tax abatement agreements they have entered into with businesses and other taxpayers. Specifically, the tax abatement disclosure requirements include:

- The purpose of the tax abatement program
- The tax being abated
- Dollar amount of taxes abated
- Provisions for recapturing abated taxes
- The types of commitments made by tax abatement recipients
- Other commitments made by a government in tax abatement agreements, such as to build infrastructure assets.

The guidance addresses tax abatements resulting from agreements entered into by the reporting government, as well as those initiated by other governments that reduce the reporting government's tax revenues.

What are the next steps? Statement No. 77 is available for download at no charge from the *GASB website*. The requirements of the Statement are effective for financial statements for periods beginning after December 15, 2015 with earlier application encouraged.

Quick notes:

- *Governor Raimondo formed a committee to study the school funding formula (Executive Order 15.16)*

- *Reminder - audit reports are due 6 months after fiscal year end (December 31, for most municipalities). If you anticipate being unable to meet that schedule contact Lori Gelfuso (*lori.gelfuso@oag.ri.gov*) at the Office of the Auditor General immediately.*

- *GASB and others have prepared materials to help you explain the effect of implementing the new pension standards since the effect can be very significant on the government-wide financial statements. Additionally, there may be confusion about the two different measures of funded status – the actuarial valuation used for accounting purposes (GASB 68) and the actuarial valuation used for funding purposes and calculating the actuarially determined contribution. Helpful links:*

  - *NASACT Participates in Group That Released Plain-English Educational Resources for GASB's New Pension Standards*

    http://www.nasact.org/files/Technical_Responses/GASB/2015_04_Pension_Communication_Resources.pdf

  - *Implementation Toolkit for Governments*

    http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163527940

The value of collaboration –

share your ideas for articles or a successful initiative that may be of interest to others

Please email your ideas for future articles or share a success story that may be of interest to others to Elaine Colarusso at elaine.colarusso@dor.ri.gov or Brenda Forsyth at brenda.forsyth@oag.ri.gov

Newsletter policy:

This newsletter is intended to provide municipal officials and other interested parties with general information on matters of interest to municipalities. It is neither designed nor intended to address complex issues in detail. Accordingly, guidance provided in this newsletter cannot replace specific guidance provided to a municipality.

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