The Quill

Summer 2017

Grace Period Extension for UG Procurement Standards
By Jeremy "Hank" Farrah

Trying to update your procurement policies and procedures to be in compliance with the Uniform Guidance (UG) got you down? Well I have some good news for you! On May 17, 2017 the Office of Management and Budget (OMB) issued a correcting amendment to the UG in the Federal Register. This amendment added an additional one year grace period for non-Federal entities to implement changes to their procurement policies and procedures in accordance with the UG procurement standards in 2 CFR 200.317 through 200.326. This means the grace period extends through Christmas 2017 (how festive of OMB!), and the implementation date for the procurement standards will start for fiscal years beginning on or after December 26, 2017 (fiscal year ended December 31, 2018). If you choose to use previous procurement standards before adopting the UG procurement standards, you must document this decision in your internal procurement policies.

GASB Statement No. 75: What You Need to Know Now
By Tim Gill

Statement No. 75 of the Governmental Accounting Standards Board (GASB), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued in June 2015. GASB Statement No. 75 replaces Statements No. 45 and 57 which govern the treatment of other postemployment benefits (OPEB). GASB Statements No. 45 and 57 were relatively short lived, as they only became effective in 2007 and 2012, respectively. So why did GASB feel the need to change such relatively new standards? Well, it all has to do with consistency. In 2012 GASB issued Statement No. 68, which changed the way pensions were reported on employer financial statements. The end result? Employers recorded a large liability for pensions when no such liability had previously been recognized. Once Statement No. 68 was issued it was only a matter of time before individuals figured out that pensions and OPEB are very similar transactions and probably should be reported in a similar manner. As such, GASB Statement No. 75 was issued to ensure consistency in the application of governmental accounting concepts.

So what's the big change? What does this mean to preparers of financials statements and their respective communities? GASB Statement No. 75 changes the manner in which the OPEB liability is recognized in the financials. Previously, the liability was being recognized over a period of 30 years. This method was chosen to reduce the impact of the liability in any one year. However, under the new requirements, the OPEB liability will be recognized in full during the first year of implementation. Additionally, the valuation of the OPEB liability, which is typically done by an actuary, will need to be updated every two years. The previous guidance allowed some entities to go as long as three years without an updated valuation. Changes in the valuation will be reported in several categories under deferred inflows or deferred outflows of resources and amortized over several years.

The impact of GASB Statement No. 75 will be similar to that of GASB Statement No. 68. Most employers will see their net position diminish significantly overnight. Preparers and users of financials should be informed and educated that this new liability does not mean a significant cash outlay is required. This is a long term liability and no immediate payment is necessary. GASB Statement No. 75 is not effective until fiscal year 2018 (for June 30 year-end entities). Finance managers should be proactive and discuss GASB Statement No. 75 with their actuary or the entity administering the OPEB plan to ensure that all valuations and information necessary for reporting is considered and available for inclusion in their 2018 fiscal year-end reports.

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Editor: Kristin Starzyk

GASB 77 – Tax Abatement Disclosures
By Parker Madden

Governmental Accounting Standards Board (GASB) has released a new standard that is designed to address newly created disclosures for tax abatements. The standard has been titled GASB 77 – Tax Abatement Disclosures and is applicable for financial statements with periods beginning after December 15, 2015. The objective of the standard is to improve financial reporting for users of the financial statements by providing a better understanding of how tax abatements affect a government's future ability to raise resources and meet its financial obligations, as well as the impact those abatements have on its financial position and economic condition.

The scope of this standard includes only tax abatements, as defined, that result from an agreement between a government and an individual or entity (entity) in which a) the government promises to forgo tax revenues and b) the entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Additionally, there are three key elements that must be present before a tax abatement is covered by the scope of this standard. The first element is related to the purpose of the tax abatement. The tax abatement's purpose must be for economic development and can include activities ranging from increasing the property tax base to historical preservation. The second element is related to the revenues that are being reduced. Only non-exchange revenues, such as property tax, can be reduced in order for this statement to be applicable. The third and perhaps most important element is the existence of a specific agreement between the government and the entity. This agreement must require that the entity's total property tax bill is reduced and, as a result, the entity performs a specific action for the government, such as developing in a depressed downtown area.

How will this statement affect local governments in Maine? Well, the main impact will be on Credit Enhancement Agreements (CEA) that can be part of a Tax Increment Financing Districts (TIF). As a CEA includes all of the required elements of GASB 77, it would fall under the guidance of this statement – the purpose of the CEA is almost always to encourage economic development, the revenues reduced are property taxes, and the agreement requires action from both the government and the entity receiving the CEA agreement.

Once it is determined which agreements are covered by GASB 77, the next step is to develop the disclosure. The disclosure will consist of a general paragraph that describes the overall tax abatement program in the City or Town; if there are multiple tax abatement programs, then there will need to be a separate description for each program. This general paragraph must include: the types of taxes being abated, authority under which the tax abatement is being entered, general purpose of issuing the tax abatements, how management determined the agreements to list individually, and total dollar amount of tax abatements granted for the fiscal year. A specific paragraph for each individual CEA that has been identified as significant is required. This paragraph must explain the reason why the CEA payment was made, percent of taxes abated, and total dollar amount of the abatement. Additional guidance can be found by visiting GASB's website (http://www.gasb.org) or by contacting your auditor at RKO.

Do You Have a Component Unit?
By Jennifer Conners

In governmental accounting, there are many scenarios in which governments and other entities are related. Depending on the nature of that relationship, the government may need to include another entity in its financial statements. In some instances, that entity would be included as a component unit.

A component unit is a separately legal entity for which the government is financially accountable or closely related. To determine if the entity is a separately legal organization, you should determine if that entity has corporate powers, such as the right to sue or be sued in its own name. The corporate powers should be enumerated in the entity's charter, by laws, or legislation that enabled the entity's existence. If it is unclear whether the entity is a separately legal entity, you may need to consult an attorney.

The second test of whether an entity is a component unit is whether the government is financially accountable for the entity. A government is financially accountable if it meets one of two tests a) appoints a voting majority of the entity's governing body and the government can impose its will on the entity or there is potential for financial benefit or burden to the government, or b) the organization is financially dependent on the government and there is the potential for financial benefit or burden to the government.

There are some situations in which the government is not financially accountable for the entity, but the government and entity are so closely related or financially intertwined that to omit the entity from the financial statements would make the statements incomplete or misleading. In those cases, professional judgment is needed.

If the entity is not a component unit because it does not meet any of the tests above, the government should still assess its relationship with the entity to determine if it should be included in its financial statements under other scenarios. If the entity has corporate powers but the government holds those powers or is otherwise not a separate legal entity, then the entity most likely should be included in the government's reporting entity as a department or fund. If the entity is a separate legal entity and the government appoints a majority of the entity's governing body, but is not financially accountable, then the entity should be

included in the footnotes as a related organization. Also, if the entity is the result of a contractual arrangement and is jointly controlled by two or more participants and the government has an ongoing financial interest or responsibility in the entity, then the entity should be disclosed as a joint venture. If the entity meets the definition of a joint venture but there is no ongoing financial interest or responsibility, then the entity could be disclosed as a jointly governed organization.

To assess what kind of relationship a government has with another entity, you can find the relevant GASB pronouncements, GASBs 14, 39, 61, and the recently added GASB No. 80, at www.gasb.org.

Record Retention Guidelines

When deciding upon a firm's record retention procedures, it would be wise to consult federal and IRS regulations and state and local government record retention requirements. The IRS generally must assess additional tax within three years after the due date on a return. (So, keep records for three years.) A period of seven years applies if the taxpayer omits items of gross income that in total exceeds 25 percent of gross income reported on the return. (Therefore, keep records relating to gross income for seven years.) If a fraudulent return is filed or no return is filed, there is no limit to the period the tax can be assessed. (So, retain records permanently.)* *See "How Long Should I Keep Records?" at http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/How-long-should-I-keep-records

Record retention policies are generally based on two questions:

1. What must I keep?
2. How long do I have to keep it?

The suggested retention periods listed below have no legal authority and are simply guidelines for use in dictating your record retention needs. In certain situations, it might be appropriate to keep records for longer periods than legally required.

FOR BUSINESSES

DOCUMENT	*RETENTION PERIOD*
Accounts Payable – Ledgers and Schedules	7 years
Accounts Receivable – Ledgers and Schedules	7 years
Audit Reports of Accountants	Permanently
Bank Reconciliations	3 years
Capital Stock and Bond Records	Permanently
Cash Books	Permanently
Checks (canceled in general)	7 years
Checks (canceled for important payments, taxes, property purchases, special contracts, etc. – file with papers of related transaction	Permanently
Contracts and Leases (expired)	7 years
Contracts and Leases Still in Effect	Permanently
Correspondence, general	3 years
Correspondence, legal and important matters only	Permanently
Deeds, Mortgages, Bills of Sale	Permanently
Depreciation Schedules	Permanently
Duplicate Deposit Slips	3 years
Employee Expense Reports/Personnel Records (after termination)	7 years
Employment Applications	3 years
Financial Statement (end of year)	Permanently
Freight Bills, Bills of Lading	7 years
Garnishments	7 years
General Ledgers	Permanently
Insurance Policies (expired)	7 years
Insurance Records (accident reports, claims, policies, etc	Permanently
Inventory Listings and Tags	7 years

FOR BUSINESSES

DOCUMENT	*RETENTION PERIOD*
Invoices	7 years
Patent/Trademark Papers	Permanently
Payroll and Purchase Journals	Permanently
Property Appraisals by Outside Appraisers	7 years
Tax Returns and Worksheets	Permanently
Time Cards and Reports	7 years

FOR INDIVIDUALS

DOCUMENT	*RETENTION PERIOD*
Alimony, Custody, Prenuptial Agreements	Permanently
Bank Statements	3 years
Birth and Death Certificates	Permanently
Canceled Checks	3 years
Certificates of Deposit Statements	7 years
Charitable Contributions	Keep with tax return
Employee Business Expense Reports	Keep with tax return
Forms 1099 Received	7 years
Forms W2 Received	Permanently
House Records (mortgage and repairs)	Permanently
Income Tax Return Record	Permanently
Insurance Policies	Keep until expiration
List of Financial Assets	Permanently
Major Purchase Receipts	7 years
Medical Records	7 years
Wills, Trusts	Permanently

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Firm Announcements

RKO welcomes **Sarah Smith**, **Miranda Carroll**, and **Zachary Albahary** as Assistant Accountants!

Changes to the Statement of Cash Flows By Kristin Starzyk

In November 2016, the Financial Accounting Standards Board (FASB) released a new pronouncement that changed the manner in which restricted cash is to be presented in the statement of cash flows. Currently there is no specific guidance surrounding the presentation of amounts designated as restricted cash or restricted cash equivalents (restricted cash). Thus, the main focus of these changes was to create a more consistent manner of presentation. Prior to this update, the statement of cash flows reconciled only the activity in cash and cash equivalents during the year. The update will require the statement of cash flows to explain the changes during the period that occurred in cash, cash and cash equivalents, and restricted cash. The report will need to detail out the net cash provided or used by operating, investing, and financing activities for all cash, cash and cash equivalents, and restricted cash. The statement of cash flows will also need to reconcile beginning and ending totals of cash, cash and cash equivalents, and restricted cash.

In addition to the items noted above, expanded disclosures will also be required. If amounts that make up cash, cash equivalents, and restricted cash are broken out into more than one line item within the statement of financial position, an entity will need to add a separate disclosure to detail out these totals in the footnotes. Additional disclosures will also be required to explain any restrictions on cash to align with the requirements as set forth by FASB ASC 958. The requirements of this update are effective for fiscal years beginning after December 15, 2018 and implementation must be done on a retrospective basis. Early implementation is permitted.

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