

INCENTIVES LESSONS FROM THE ACCOUNTING / AUDIT TRENCHES

Mike Petrecca

Vorys

Meghan Needham

Julian & Grube

Carissa Zentkovich

PwC

Economic Development Incentives Conference

Presented by Vorys, Sater, Seymour and Pease LLP

VORYS

Tax Incremental Financing (TIF)



At least 6 different types of TIFs – all implemented via ordinance or resolution

The purpose is to generate payments in lieu of taxes (PILOTs) to pay for public infrastructure improvements

TIF RISKS TO GUARD AGAINST AS A GOVERNMENTAL ENTITY:

- Anticipated real property improvements are not completed or valued at the anticipated levels
- Real property improvements are completed but are later destroyed due to casualty event or natural disaster
- Real property improvements are completed but the property owner encounters financial difficulty and is unable to make pilots
- Decrease in level of assessed valuation and/or level of real property taxation
- Pilots are insufficient to pay debt service on securities issued to pay costs of the public improvements

Advanced Economic Development Tools

- New Community Authorities (“NCA”)
- Port Authorities
- Community Improvement Corporations
- Downtown Redevelopment Districts

Challenges include:
Formation and continuing to function as a Board
Potential Component Unit for reporting
Required financial statement reporting on the Hinkle System
Sunshine Laws apply in most cases

What is the Role of the Finance Officer in Economic Development?



The finance officer should be lead or key participant in the analysis of economic and fiscal impacts, as well as risks and uncertainties, associated with proposed economic development plans, strategies and projects – GFOA Best Practices

Roles of a Finance Officer:

- Project leadership and management
- Assist in creating or updating an economic development plan
- Assist in creating financial incentive tools and their policies for use
- Analyze and assist with creating individual development proposals
- Participate in negotiations of development agreements
- Monitor compliance with ongoing development agreements
- Facilitate the ongoing economic development program

Where Can I Get Guidance?

- Legal Counsel (both in house and external)
- Bond Counsel
- Accounting Consultants
- Ohio Auditor of State's Office
- GASB
- GFOA



GASB 77 – Guidance on Tax Abatement Disclosures

Ohio Auditor of State Technical Bulletin – 2010-003 TIF & TIF Service Payments

GFOA Economic Development Best Practices

<https://www.gfoa.org/best-practices/economic-development>

Economic Development Incentives Conference

Presented by Vorys, Sater, Seymour and Pease LLP

VORYS

“Top Ten” Questions

1. Who should be included in the discussion and plans regarding economic incentives?
2. What type of files should be maintained (in detail) for audit purposes?
3. Are there specific financial statement disclosures? If so, what would some of these be?
4. Should the benefits of the incentive agreements, i.e., TIF receivables, revenue sharing agreements, etc., be maintained on a GAAP or cash basis for the budgetary reports?
5. What can go wrong? Tales from the trenches.

Government Assistance New Disclosure Requirements

- FASB issued ASU 2021-10:
Government Assistance (Topic 832)
– Disclosures by Business Entities
about Government Assistance
- Requires business entities to
disclose information about
transactions with a government that
are accounted for by applying a
grant or contribution accounting
model by analogy

Additional disclosure requirements
about transactions with a
government

The guidance is effective for
annual periods beginning after
December 15, 2021. Early
adoption is permitted.

Scope of the Standard



The ASU seeks to provide greater transparency into the financial reporting of agreements that businesses enter into with governments

Who

- The guidance applies to an organization (other than a not-for-profit entity) that accounts for government assistance transactions by analogizing to a grant or contribution accounting model (e.g., IAS 20 or ASC 958-605)

What

- Examples of government assistance include grants of assets, cash grants, tax incentives (other than income tax), and project grants

Specifically, excluded:

- Arrangements in the scope of specific US GAAP, such as:
 - Tax credits accounted for under ASC 740
 - Gain contingencies accounted for under ASC 450
 - Revenue transactions accounted for under ASC 606
 - Below-market loans accounted for under ASC 470
 - Employee benefit plans

What's Required?

New disclosure requirements

- Information about the nature of the transactions and the accounting policy used to account for the transactions
- Impacted financial statement line items and applicable amounts
- Significant terms and conditions of the transactions, including commitments and contingencies

Adoption options:

- (1) Prospectively to all transactions within the scope of the amendments that are reflected in the financial statements at the date of initial application and new transactions that are entered into after the date of initial application or,
- (2) Retrospectively to all transactions within the scope of the amendments that are reflected in the financial statements

“Top Ten” Questions (Con’t.)

6. What are common issues that companies have encountered in accounting for government assistance programs?
7. What are the terms and conditions that must be disclosed?
8. What if my arrangement is legally prohibited from disclosure? How does management provide the necessary footnote disclosures to ensure the public/readers of the agreement understand the financial program?
9. What are the challenges that companies will face while adopting this standard?
10. What auditing challenges have you encountered related to government assistance programs?



Questions

Economic Development Incentives Conference

Presented by Vorys, Sater, Seymour and Pease LLP

VORYS

Contact Information

Michael A. Petrecca

Vorys

614.464.5477 | mapetrecca@vorys.com

Meghan Needham

Julian & Grube

614.846.1899 | mneedham@jginc.biz

Carissa Zentkovich

PWC

440.334.8936 | carissa.a.zentkovich@pwc.com

Economic Development Incentives Conference

Presented by Vorys, Sater, Seymour and Pease LLP

VORYS