

The Honorable Eric R. Papenfuse, Mayor  
and Honorable Members of City Council  
City of Harrisburg, Pennsylvania

In planning and performing our audit of the financial statements of the City of Harrisburg (City) as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We reported on internal controls and their operation to the management of the City in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 23, 2015 and in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 dated September 23, 2015. However, during our audit we became aware of several other matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated September 23, 2015 on the financial statements of the City.

The City's written responses to the internal control issues identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We have already discussed these comments and suggestions with various City personnel. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the audit committee, management, the Honorable Mayor, Members of City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Maher Duessel*

Harrisburg, Pennsylvania  
September 23, 2015

## **RECORDING MORTGAGE NOTES ON DEPARTMENT OF BUILDING AND HOUSING LOANS AND/OR GRANTS**

As previously noted in the December 31, 2013 audit, the City, through its Home Improvement Program (HIP), provides loans and/or grants for the rehabilitation of homes owned and occupied by low and moderate income homeowners. These loans/grants are used for repairs related to code violations or repairs or updates to major home systems. To qualify for assistance under the HIP, homeowners must meet various income, debt, and insurance requirements and must also sign a mortgage note at the time of settlement, regardless of whether the funding is for a loan or a grant. The homeowner has the option to repay the loan over a five- or ten-year term at an interest rate of 3%. The mortgage note is recorded in the Recorder of Deeds Office and gives the City legal claim as a second lien holder in the event of default on the loan or sale of the property prior to the five- or ten-year term of the loan/grant. During the year ended December 31, 2013, we noted that mortgage notes were signed by the homeowner or filed with the Recorder of Deeds for 86 grants issued in 2010, 2011, and 2012. For the years ended December 31, 2014 and 2013, we noted 125 grants for which no documents have been filed in the Recorder of Deeds Office. We recommend that the City follow its policy for preparing and filing of the mortgage note for each loan/grant when issued.

**Management's Response:** The City agrees with the auditor's comments and recommendation. Going forward, the City Solicitor and the Department of Building and Housing Development (DBHD) staff will follow their policy for preparing and filing of the mortgage note with the Recorder of Deeds for each loan/grant issued.

## **ACCOUNTING FOR ANCILLARY COSTS ASSOCIATED WITH CAPITAL ASSETS CONSTRUCTED BY THE CITY**

As previously noted in the December 31, 2005 through December 31, 2013 audits, Governmental Accounting Standards Board (GASB) Statement No. 34 requires that the City track all capital assets, including infrastructure assets (roads, bridges, traffic signals, etc.). In addition to the hard cost of materials used for the construction of capital assets, the City is to capitalize any internal costs necessary to place the capital asset into its intended use. Therefore, should the City construct capital assets, the cost of labor, benefits, etc., should be included in the capitalized cost of the capital asset. We recommend that the City develop a policy to assist in capturing the ancillary costs for all capital assets constructed or put into place by the City.

**Management's Response:** The City concurs and will endeavor to develop and implement appropriate procedures need to capture and capitalize such costs.

## **INVENTORYING CAPITAL ASSETS**

As previously noted in the December 31, 2007 through December 31, 2013 audits, no physical inventory has been taken since 2005. In that year, the accounting department provided each department head with a list of capital assets for their department. The department heads were to review the list for any obsolete assets or assets that were disposed. Further, when infrastructure capital assets are replaced, the replaced assets are not being removed from the capital asset inventory unless the department head completes a disposal form.

We recommend that the City inventory its capital assets on an annual basis so that disposals and additions are properly accounted for. The capital assets per the books should reconcile to the inventory of capital assets held by the City's departments. Additionally, the capital asset inventory should periodically be compared to insurance policies, to verify the completeness of the inventory.

**Management's Response:** The City concurs and will endeavor to develop and implement appropriate procedures in order to inventory its capital assets periodically, so that additions, transfers, and disposals are properly documented and accounted for.

## **COMPLYING WITH DEBT COVENANTS**

As previously noted in the December 31, 2008 through December 31, 2013 audits, the City's debt covenants require the City to provide certain financial information, including audited financial statements and operating data relating to the City no later than 270 or 180 days after the end of each fiscal year, depending upon the particular covenant. The City's debt covenants also require the City to provide the electronic municipal market access system (EMMA) and the appropriate information depository in Pennsylvania (SID), annual audited general purpose financial statements presented in conformity with accounting principles generally accepted in the United States of America. Such financial statements must be provided within 270 days after the end of the fiscal year. We recommend that the City make every effort to complete the audited financial statements within the time requirements of the various debt covenants.

**Management's Response:** By way of background, the City's Finance Director/Accounting Manager of 13 years resigned his post in December 2009 to take a position with the incoming City Controller in January 2010. There was no one on staff within the Bureau of Financial Management with expertise and sufficient skill set to take his place. Thereafter, in 2010, City Council eliminated funding for the Chief of Staff position, consolidating that position's responsibilities into the new Chief of Staff/Business Administrator (BA) position. The Interim BA's position was vacated in April 2010, and the Chief of Staff/Business Administrator resigned in July 2010. The Chief of Staff/BA position remained vacant until April 2012, so the newly hired Finance Director assumed all three position's responsibilities, making it difficult to oversee City-wide operations and, at the same time, meet the City's accounting and financial reporting disclosure obligations in a timely manner.

With the assistance of legal counsel, the City has since enhanced its disclosure process by adopting a formal written policy and has implemented related procedures with respect to public statements made by the City regarding financial information, and its compliance with its Continuing Disclosure Certificates.

Since March 2011, the City has complied with all known continuing disclosure requirements having to do with notifying all stakeholders, through EMMA, of published Material Event Notices for not being able to honor Capital Region Water Resource Recovery Facility debt payment guarantee obligations and City general obligation debt payments as they came due, or Notices for Failure to Provide Required Annual Financial Information when due.

Through financial support provided to the City by the Commonwealth of Pennsylvania Department of Community and Economic Development under provisions of Act 47, public accounting firms were hired in 2011, 2012, and 2013 to address the City's severe professional staffing capacity issue by assisting the City in preparing for its 2009, 2010, 2011, 2012, and 2013 annual Audits. Additionally, long-standing vacancies in the Senior Accountant and Accounting Manager positions were filled in November 2012.

Due to the combination of these positive actions, as well as the implementation of the Harrisburg Strong Plan, the City anticipates being in full compliance with its annual reporting requirements under all debt covenants by mid-year 2015, with the culmination of the issuance of the City's 2014 Audit and related documents.

## **DEVELOPING FORMAL PROGRAM AND SYSTEM CHANGE CONTROL POLICIES AND PROCEDURES**

As previously noted in the December 31, 2005 through December 31, 2013 audits, IT performs program development, operating system maintenance, and application software maintenance on the City's information technology systems. IT management maintains close oversight over the change control process, but more formalized documentation is recommended to reduce the risk of unauthorized changes being made to the City's information technology systems. The risk of unauthorized changes being made to information technology systems and programs could result in processing errors and system down-time. We recommend that a comprehensive written policy be developed that outlines all the procedures and documentation required for changes to the City's information technology systems and programs. The policy should follow the system development life cycle methodology to include the following:

- Preparation of written requests.
- Approval of the request by management.
- Required documentation standards.
- Testing of the changes, follow-up of discrepancies, and participation and approval by users.
- Procedures for integrating the changes into the production environment from a separate test environment.

**Management's Response:** The City concurs and will endeavor to develop and implement such policies and procedures.

## **DEVELOPING A POLICY FOR MONITORING NETWORK ACTIVITY**

As previously noted in the December 31, 2005 through December 31, 2013 audits, IT is responsible for monitoring network activity and responding to potentially suspicious activity occurring within the network. There is currently no Intrusion Detection System that would allow monitoring of both internal and external traffic on a real-time basis. IT would not know if the network is being used maliciously until after a security breach has occurred. We recommend that an Intrusion Detection System be installed to monitor network activity.

**Management's Response:** The City concurs with the recommendation.

## **PROVIDING COMPUTER EMPLOYEE TRAINING**

As previously noted in the December 31, 2005 through December 31, 2013 audits, IT currently has seven employees. There is currently limited training scheduled. It is extremely important for IT staff to be trained on the hardware and software changes occurring in the City's computer environment. If the IT staff is not trained properly, this could result in vulnerabilities, poor employee performance, and down-time. We recommend that a training schedule be established for all IT staff as the budget permits.

**Management's Response:** The City concurs with the recommendation.

## **DEVELOPING A TECHNOLOGY DISASTER RECOVERY PLAN - NETWORK SERVERS**

As previously noted in the December 31, 2010 through December 31, 2013 audits, an information technology disaster recovery plan describes the procedures necessary to recover from an abnormal disruption in computerized operations. The objectives of disaster recovery are: to ensure that the City's information technology personnel are sufficiently prepared and trained in the event of a disaster; to minimize the effects upon the City's other operations; and to establish an alternate means of restoring normal information technology operations within a short period of time. The scope of a disaster recovery plan should cover the following issues:

- Identification of critical information technology systems relevant to the daily operations of the City
- An assessment of the vulnerability and security of each critical information technology system
- Disaster declaration and notification procedures and assignment of responsibilities to personnel
- Procedures for restoration of critical information technology systems
- Back-up and storage procedures for critical information technology systems
- Any required testing of the plan's disaster recovery procedures to ensure that the plan will function as intended
- An inventory of all critical information technology assets
- A list of employee and vendor contacts

There is no written disaster recovery plan for the City's network servers. In addition, although a written disaster recovery plan exists for the City's mainframe computer systems, the plan has not been tested since November 2009. In addition, in January 2012, the City terminated its "Hot Site" contract which provided a disaster recovery site along with a set amount of time each year to test the mainframe recovery. Even though the contract was terminated, a recovery site is still available to the City, but arrangements would need to be made to utilize the site each time an event occurs.

We recommend that the City prepare a written disaster recovery plan that covers the network servers under the City's control and that the plan for both systems be tested periodically.

**Management's Response:** The City concurs with the auditor's comments and recommendations. Due to the City's severe financial distressed status under provisions of Act 47, the original Act 47 Coordinator's Financial Recovery Plan filed in 2011 called for the City to discontinue its contract with its Mainframe disaster recovery services provider and related off-site back-up and storage arrangements until further notice, so funding allocated in the 2011 Budget for this purpose was not utilized. Consequently, no funding was requested nor provided for the Information Technology Network subsequent to 2011. However, IT staff will endeavor to identify and implement certain aspects of an information technology disaster recovery plan that they have the capability to do as other priorities allow.

## **PROPERLY RECORDING CLOSING JOURNAL ENTRIES**

The City uses a different basis of accounting for budget than it does for external financial reporting. On a budgetary basis, the City reports the General Fund on a cash basis with respect to revenues and on an item vouchered basis with respect to expenditures. All journal entries that affect budgetary basis are to be made in the 12<sup>th</sup> period in the City's general ledger system. 13<sup>th</sup> period is to be used for journal entries to convert to external financial reporting. However, for the years ended December 31, 2010 through

December 31, 2013, the City has had external consultants prepare year-end correcting and conversion entries and, for the year ended December 31, 2014, the City prepared year-end correcting and conversion entries. Throughout this entire period, the City has been making entries to incorrect periods. This causes the City's internal budget reporting to be inaccurate. We recommend that all journal entries be evaluated to determine the proper period of entry.

**Management's Response:** The City concurs and will take the needed actions to rectify within an appropriate timeframe.

### **REVIEWING SERVICE ORGANIZATION REPORTS**

As previously noted in the December 31, 2013 audit, the City has a service organization that processes receipts on behalf of the City for online and telephone payments. Service organizations may have a Statement on Standards for Attestation Engagements (SSAE) No. 16 report prepared annually. This is a report that provides an evaluation of the organization's internal control over the processing of transactions. In order to monitor the City's service organization, we recommend that the City request and review the SSAE No. 16 report on an annual basis and take appropriate action based on the report's findings, if any.

**Management's Response:** The City concurs and will take the appropriate actions in order to address as is necessary.

### **COMPLYING WITH THE BLOOD LEAD TESTING REQUIREMENTS**

As previously noted in the December 31, 2013 audit, in accordance with the Department of Housing and Urban Development Docket Number FR-5415-N-11, Blood Lead testing is a requirement of the Lead-Based Paint Hazard Control Program. Each child under six years of age should be tested for lead poisoning within the six months preceding the lead hazard control work. Any child with an elevated blood lead level must be referred for appropriate medical follow-up. During case file testing for the lead program during the audit for the year ended December 31, 2014, it was noted that two out of the two households tested with children under the age of six were not tested for lead poisoning, and there was no documentation in the case file noting why the child was not tested. In order to comply with the Lead-Based Paint Hazard Control Program grant, we recommend that the City maintain proper documentation as to whether children under the age of six have had blood lead testing or whether the parents have chosen to opt out of the testing.

**Management's Response:** The City concurs and will take the appropriate actions in order to address as is necessary.

### **APPROVING JOURNAL ENTRIES**

Certain journal entries are prepared by the Accounting Manager and reviewed by the Finance Director. Approval of the journal entry is noted by the reviewer initialing the cover page of the entry. During testing of journal entries, it was noted that the year-end journal entries were emailed to the Finance Director for approval; however, there was no physical evidence of the approval. We recommend that the City document approval of all journal entries whether via physical signature or via email.

**Management's Response:** The City concurs and will take the needed actions to rectify within an appropriate timeframe.

## **CONVERTING VACATION CARRYOVER BALANCES FOR FIREFIGHTERS**

Based on the City's vacation policy for firefighters, accrued vacation is to be converted to holiday pay at year-end. During our testing of compensated absences, it was noted that 32 firefighters had accrued vacation balances at December 31, 2014 that had not been converted to holiday time. In order to ensure that compensated absences are properly reflected for firefighters, we recommend that the City follow its policy as it relates to accrued vacation for firefighters.

**Management's Response:** The City concurs with the recommendation.

## **ESTABLISHING PROPER CUT-OFF PROCEDURES**

Expenditures/expenses and related liabilities should be recorded in the period for which they are incurred. During our testing of subsequent disbursements, we noted two invoices for services performed during the year ended December 31, 2014 that were not properly recorded in accounts payable. We recommend that the City review its cut-off procedures and ensure that they are followed consistently.

**Management's Response:** The City concurs with the recommendation.

## **ENSURING PROPER CODING AND OBTAINING PROPER APPROVAL FOR INVOICES**

The City's policy is for the department head to review the general ledger coding for each invoice and to approve the invoice for payment. During our testing of 25 invoices, we noted one invoice that did not reflect the proper general ledger coding and one invoice was not properly approved by the department head. In order to accurately substantiate the payment of invoices, we recommend that the City ensure proper coding of each invoice and that the City obtain proper approval of all invoices prior to payment.

**Management's Response:** The City concurs with the recommendation.

## **ESTABLISHING AN IMPROVEMENT FUND**

Per the acquisition agreement with Senators Partners, LLC, the City is required to establish an Improvements Fund on or before December 1, 2013. On or before December 1, 2013 and on or before December 1 of each calendar year thereafter, the City is to deposit \$25,000 into the Improvements Fund. The Improvements Fund is to be created to ensure that a threshold amount of funds is available to pay for capital improvements for the premises or the stadium. The Improvement Fund was not created as of December 1, 2013 and was not funded during the year ended December 31, 2014. We recommend that the City review the terms of the acquisition agreement regarding the establishment of the Improvements Fund and fund the Improvements Fund as required in the agreement.

**Management's Response:** A City-led legal review commenced in 2014 and is ongoing.

## **UNIFORM ADMINISTRATIVE REQUIREMENT, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS**

The Office of Management and Budget (OMB) issued final grant reform rules in a document titled, “*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*” The Uniform Grant Guidance supersedes and streamlines requirements from eight different grant circulars into one set of guidance contained in Title 2 of the Code of Federal Regulations (CFR), Part 200.

Subpart D includes Post–Award Requirements (Administrative Requirements) and includes discussion of Internal Control, Procurement Standards, and Subrecipient Monitoring.

Subpart E includes reforms to the Cost Principles previously found in Circulars, A-21, A-87, and A-122. There are changes that are relevant to indirect costs and time and effort reporting, along with other changes. There are also Appendices that provide specific guidance on Indirect Costs.

Non-federal entities are required to implement the administrative requirements and cost principles for all new federal awards and for additional funding to existing **awards made after December 26, 2014.**

Subpart F includes the reforms to single audit requirements which were previously found in Circular A-133. For audits, the new thresholds and requirements will be effective for fiscal years beginning on or after December 26, 2014. Therefore, auditees will be subject to the new audit guidance starting with **December 31, 2015 year-ends.**

We recommend that the City read the guidance available at: <http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf>

The City should review these new requirements as soon as possible to ensure any changes that are necessary can be made on a timely basis.

**Management’s Response:** The City concurs with the recommendation.

## **GASB STATEMENT NO. 68, “ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS”**

This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.

Pension plans are distinguished for financial reporting purposes in two ways. First, plans are classified by whether the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms (a defined benefit plan) or whether the pensions an employee will receive will depend only on the contributions to the employee’s account, actual earnings on investments of those contributions, and other factors (a defined contribution plan).

In addition, defined benefit plans are classified based on the number of governments participating in a particular pension plan and whether assets and obligations are shared among the participating governments. Categories include plans where only one employer participates (single employer); plans in which assets are pooled for investment purposes, but each employer’s share of the pooled assets is legally

available to pay the benefits of only its employees (agent employer); and plans in which participating employers pool or share obligations to provide pensions to their employees and plan assets can be used to pay the benefits of employees of any participating employer (cost-sharing employer).

Statement No. 68 replaces the requirements of Statement No. 27, "*Accounting for Pensions by State and Local Governmental Employers*," and Statement No. 50, "*Pension Disclosures*," as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

**Defined Benefit Pension Plans.** The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

The Statement calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability and immediate recognition of the effect on the net pension liability of changes in benefit terms. Other components of pension expense will be recognized over a closed period that is determined by the average remaining service period of the plan members (both current and former employees, including retirees). These other components include the effects on the net pension liability of (a) changes in economic and demographic assumptions used to project benefits and (b) differences between those assumptions and actual experience. Lastly, the effects on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed five-year period.

Statement No. 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. These changes include:

- Projections of Benefit Payments.
- Discount Rate.
- Attribution Method.
- Note Disclosures and Required Supplementary Information.

The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

***GASB STATEMENT NO. 71, "PENSION TRANSITION FOR CONTRIBUTIONS MADE SUBSEQUENT TO THE MEASUREMENT DATE"***

This Statement addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government

employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state and local government employer to recognize a net pension liability measured as of a date (measurement date) no earlier than the end of its prior fiscal year. If a state or local government makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer to determine the amounts of all deferred outflows and inflows of resources related to pensions, paragraph 137 of Statement No. 68 required beginning balances for deferred outflows and inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows and inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer's beginning net position and expense in the initial period of implementation.

Statement No. 71 amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require beginning balances for other deferred outflows and inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

## **GASB STATEMENT NO. 72, "FAIR VALUE MEASUREMENT AND APPLICATION"**

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the

income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security.

A fair value measurement takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, a government should be able to use the fair value of that asset to measure the fair value of the liability.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

**GASB STATEMENT NO. 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”**

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, “*Financial Reporting for Pension Plans*,” and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

**GASB STATEMENT NO. 74, “FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS”**

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*,” as amended, and No. 57, “*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.” It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, “*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*,” as amended, Statement No. 43, and Statement No. 50, “*Pension Disclosures*.”

Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*,” establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

**GASB STATEMENT NO. 75, “ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS”**

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review

of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,”* as amended, and No. 57, *“OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,”* for OPEB. Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

### ***GASB STATEMENT NO. 76, “THE HEIRARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR STATE AND LOCAL GOVERNMENT”***

The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement 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. This Statement supersedes Statement No. 55, *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”*

This Statement is effective for fiscal years beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

### **GASB STATEMENT NO. 77, “TAX ABATEMENT DISCLOSURES”**

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated

- The gross dollar amount of taxes abated during the period.

This Statement is effective for fiscal years beginning after December 15, 2015. Earlier application is encouraged.

**Management's Response:** The following pertains to the auditor's comments on planning for the implementation of GASB Statement Nos. 68 and 71 through 77. The City concurs that planning is a crucial element of successful implementation of these GASB Statements and will review the specific requirements of these new standards and their potential impact on the City. The Bureau of Financial Management will continue to review and plan for these implementation requirements and monitor subsequent interpretations and guidance from the American Institute of Certified Public Accountants and Government Finance Officers Association.