

# Agenda

- Introductions
- Meeting Objectives
- ARRA - Tips, Tricks and Traps
  - Recent Developments and Trends
  - Implementation Challenges
  - The PMO Approach
  - Managing For Success
- GASB Update:
  - GASB 49
  - GASB 51 through 54

## Meeting Objectives

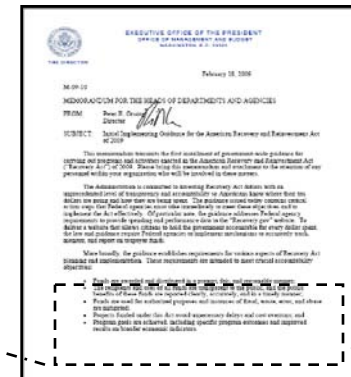
- Discuss the single audit implications of the ARRA legislation
- Discuss relevant changes that may be needed in policies and procedures as a result of Section 1512 reporting requirements
- Discuss other policy and procedure changes that may be needed to effectively and efficiently manage ARRA monies
- Discuss the components of current and upcoming GASB pronouncements

# The American Recovery and Reinvestment Act of 2009: Accelerating Readiness for Enhanced Sustainability

# The Recovery Act of 2009 Accountability Objectives

**The Recovery Act requires a combination of speed, transparency, accountability, efficiency, and effectiveness.**

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated;
- Projects funded under this Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.



## Recent Developments and Trends

## Recent Developments and Trends

- FMAP Compliance
- Davis Bacon
- Buy American
- Job Creation
- Certification and Maintenance of Effort
- Fraud, Waste and Abuse
- Program Risk Considerations
- Potential Responsibilities for Pass-through Funding

## FMAP Compliance: Section 5001

On Feb 25, 2009, more than \$15 billion related to the first two quarters of FY 2009 were released through the Payment Management Systems and deposited in special Treasury accounts for states' withdrawal

States could immediately begin drawing such funds as long as they comply with the five attestation requirements included in the CMS grant award letter ("passive attestation"):

- Maintenance of Eligibility - section 5001(f)(1)
- Compliance with Prompt Payment - section 5001(f)(2)
- Rainy Day Funds - section 5001(f)(3)
- Percentage Contributions from Political Subdivisions - section 5001(g)(2)
- Eligible Expenditures - section 5001(e)

Funds must be drawn down separately, tracked separately, and reported to CMS separately for Federal reimbursement

In addition, section 5001(g)(1) of ARRA provides that each State which receives increased FMAP funding will be required to submit a report to the Secretary no later than September 30, 2011 regarding how the additional increased FMAP funds were expended. Further guidance will be developed for such reporting, but each State must track and account for the expenditure of the increased FMAP funds.

## Wage Rate Requirements: Section 1606

- Section 1606 of the Recovery Act requires the payment of Davis-Bacon Act (40 U.S.C. 31) wage rates to “laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the Federal Government” pursuant to the Recovery Act.
- Wages rates should be not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of Labor<sup>1</sup>
- The Department of Labor has issued regulations to implement the Davis-Bacon and related Acts, instructing agencies concerning application of the standard Davis-Bacon contract clauses.
- Federal agencies providing grants, cooperative agreements, and loans under the Recovery Act shall ensure that the standard Davis-Bacon contract clauses found in 29 CFR 5.5(a) are incorporated in any resultant covered contracts that are in excess of \$2,000 for construction, alteration or repair (including painting and decorating).

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<sup>1</sup> in accordance with subchapter IV of chapter 31 of title 40, United States Code

## “Buy American”: Section 1605

Section 1605 of the Recovery Act prohibits use of recovery funds for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods (“materials”) used in the project are produced in the United States.

The law requires that this prohibition be applied in a manner consistent with U.S. obligations under international agreements, and it provides for waiver under three circumstances:

- Nonavailability - materials are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality;
- Unreasonable cost - materials produced in the United States will increase the cost of the overall project by more than 25 percent; or
- Inconsistent with public interest - applying the domestic preference would be inconsistent with the public interest.

## CEA Guidance on Job Creation

- On May 11, 2009, Council of Economic Advisors released guidance on job creation, laying out general principles and approach, which will be basis for the OMB guidance on job creation - the OMB guidance is expected to be issued shortly
- The guidance covers a few points relating to the overall job creation reporting:
- Reported data will be checked for completeness and plausibility. More information or revisions to the reporting methodology may be requested by agencies if results appear to be problematic
- The first CEA report is due to Congress in August 2009 and will cover the quarter ending June 2009

# Certification and Maintenance of Effort

## Certification

- Certification elevated to the Governor, Mayor or other State officials
- Upfront certification prior to spending
  - Infrastructure investment has been reviewed
  - Full responsibility is accepted as to the appropriate use of the tax payers' funds
- Unprecedented intent by Federal government to ensure accountability
- Currently Governors of all States, Territories and the District of Columbia have provided their certification
- Process for complying with the Governor's certification of the use of funds

## Maintenance of Effort

- Federal funds cannot be used to supplant local funding
- Must be used for additive projects, not applied to cut-backs
- Governments will need to document current level of effort; difficult due to “baked in” cuts and decreases

## Anti-Fraud, Waste and Abuse Considerations

- A key objective of ARRA is to minimize fraud, waste and abuse
  - Additional funding for audits, law enforcement and inspector general oversight
  - Even a 5% error rate places \$40 billion of total program funding potentially at risk for fraud, waste and abuse
  - The federal government expects States to embed anti-fraud, waste and abuse efforts into ongoing oversight of programs
  - Existing systems and controls may not be capable of addressing increased expectations
  - The public has zero tolerance for fraud, waste and abuse



Source: GAO.

# Program Risk Considerations

## Reporting

- Prompt website reporting
- Accurate, required data fields
- Issues identification/response
- Review/approval process
- Timely management updates
- Timely reports on risk management effectiveness

## Human Capital

- Qualified oversight personnel
- Staff empowerment
- Performance management training
- Adequate staffing
- Alternative hiring possibilities

## Financial

- Separate Treasury Account Fund Symbols
- Controls to avoid co-mingling of funds
- Controls to mitigate fraud, waste, abuse

## Acquisition

- RFP language
- Required terms/clauses in contracts
- Minimization of fraud, waste, error and abuse
- Prompt, fair, reasonable contract awards
- Contract Transparency, Clarity, Timeliness
- Delay/cost overrun avoidance
- Potential contactor performance issues

## System

- Financial and operations systems
- Configuration
- Data elements for analysis and reporting
- Financial and operations systems capacity

## Potential Responsibilities for Pass-through Funding

- At the time of the award, identify for the subrecipient all Federal award information (e.g. CFDA, award name, name of the Federal Agency) and applicable requirements
- Conduct risk assessment of subrecipient
- Communicate Stimulus reporting requirements
- Ensure subrecipient systems and processes are adequate to track and report recovery funds
- During the award, monitor the use through reporting, site visits, regular contracts or other meetings to provide reasonable assurance that :
  - Stimulus dollars were used in compliance with laws, regulations, provisions of contracts or grant agreements, and
  - Performance goals were achieved (e.g. jobs created or retained, timeliness of disbursements, level and percentage of funding used, economic activity produced, educational achievement attained)

# Implementation Challenges

## Implementation challenges

- New Section 1512 Guidance
- Recommended Modifications to H.R. 2182

## New Section 1512 Guidance

On June 22, OMB posted *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, which provides Federal agencies and funding recipients with information necessary to effectively implement the reporting requirements included in Section 1512.

The Guidance :

- Answers questions and clarifies issues related to the mechanics and chronology of recipient reporting required by the Recovery Act
- Provides clarification on what information will be required to be reported into the central reporting solution at [www.FederalReporting.gov](http://www.FederalReporting.gov) and what information will be reported on [www.Recovery.gov](http://www.Recovery.gov)
- Instructs recipients on steps that must be taken to meet these reporting requirements, including the incorporation of sub-recipient reporting requirements under Section 1512(c)(4) of the Ac
- Establishes a common framework for Federal agencies and recipients to manage a data quality process
- Covers new areas not previously addressed (e.g., data quality requirements and logistical details surrounding the [www.FederalReporting.gov](http://www.FederalReporting.gov) reporting solution), clarifies, and in some cases modifies, previously issued requirements. In particular, the Guidance:
  - Identifies additional data elements required pursuant to Section 1512 of the Recovery Act to enhance transparency (Section 2.3 and the supplemental materials to the Guidance);
  - Modifies requirements related to recipient data reporting due on July 10, 2009 (Section 2.6); and
  - Updates information on methodologies and approaches for reporting job creation/retention estimates (Section 5)

## New Section 1512 Guidance, continued

The Guidance is composed of five sections and has two supplements:

- Section 1 – General information
- Section 2 – Basic Principles and Requirements of Recovery Act Recipient Reporting
- Section 3 – Recipient Reporting Process
- Section 4 – Data Quality Requirements
- Section 5 – Reporting on Jobs Creation Estimates by Recipients
- Supplement 1 – List of Programs Subject to Recipient Reporting
- Supplement 2 – Recipient Reporting Data Model

## New Section 1512 Guidance, continued

### Section 1 – General Information – Applicability of Section 1512

- The Guidance applies to recipients of Federal assistance awards, it does not apply to:
  - Recipients of Federal contract awards,
  - Recipients of loan guarantees, except for a 100% guaranteed loans financed through the Federal Financing Bank ,
  - Individuals receiving direct payments
- The Guidance does not impact requirements outside of Section 1512, i.e. program-specific guidance
- Deadline – October 2009

## New Section 1512 Guidance, continued

### Section 2 – Basic Principles and Requirements of Recovery Act Recipient Reporting

- Reporting for recipient and subrecipient vendors are segregated
- Subrecipient vendor reporting (new requirement and takes the reporting process to a third level of funding)
- Subaward reporting – not required by subrecipients
- New reporting elements for prime recipients – e.g. item 17: Recipient Officer Names and Compensation (top 5). This item was previously required only at sub-recipient level.
- Reporting of small subawards less than \$25,000 (will be reported in 3 categories – aggregate sub-awards, awards to individuals and payments to vendors)
- All 1512 reporting is cumulative at each quarter-end, from award date to reporting date
- Inventory of subrecipient delegations - prime recipients must maintain an updated inventory of sub-recipient delegations and crosscheck all data records.
- Recipients can delegate reporting to subrecipients – allowing sub-recipients to enter sub-recipient data directly on [FederalReporting.gov](http://FederalReporting.gov) (also referred to as the 1512(c)(4) requirements or FFATA Data elements).

# Required Data Elements and Responsibilities

## Prime Recipient

1. Federal Funding Agency Name
2. Award identification
3. Recipient D-U-N-S
4. Parent D-U-N-S
5. Recipient CCR information
6. CFDA number, if applicable
7. Recipient account number
8. Project/grant period
9. Award type, date, description, and amount
10. Amount of Federal Recovery Act funds expected to projects/activities
11. Activity code and description
12. Project description and status
13. Job creation narrative and number
14. Infrastructure expenditures and rationale, if applicable
15. Recipient primary place of performance
16. Recipient area of benefit
17. Recipient officer names and compensation (Top 5)
18. Total number and amount of small sub-awards; less than \$25,000

## Recipient Vendor

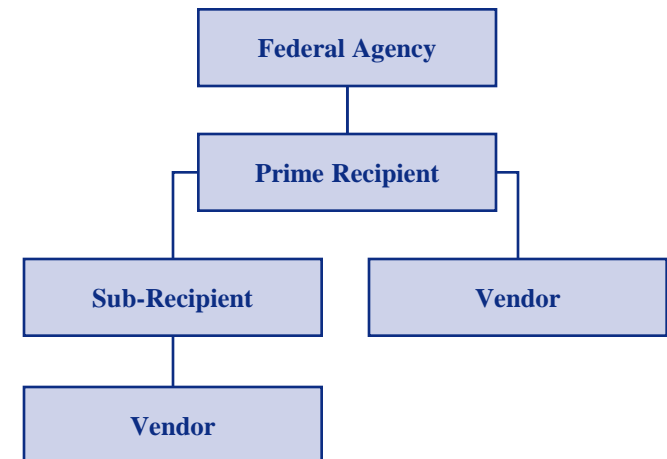
1. D-U-N-S or Name and zip code of Headquarters (HQ)
2. Expenditure amount
3. Expenditure description

## Sub-Recipient (also referred to as FFATA Data Elements)

1. Sub-recipient D-U-N-S
2. Sub-recipient CCR information
3. Sub-recipient type
4. Amount received by sub-recipient
5. Amount awarded to sub-recipient
6. Sub-award date
7. Sub-award period
8. Sub-recipient place of performance
9. Sub-recipient area of benefit
10. Sub-recipient officer names and compensation (Top 5)

## Sub-Recipient Vendor

1. D-U-N-S or Name and zip code of HQ

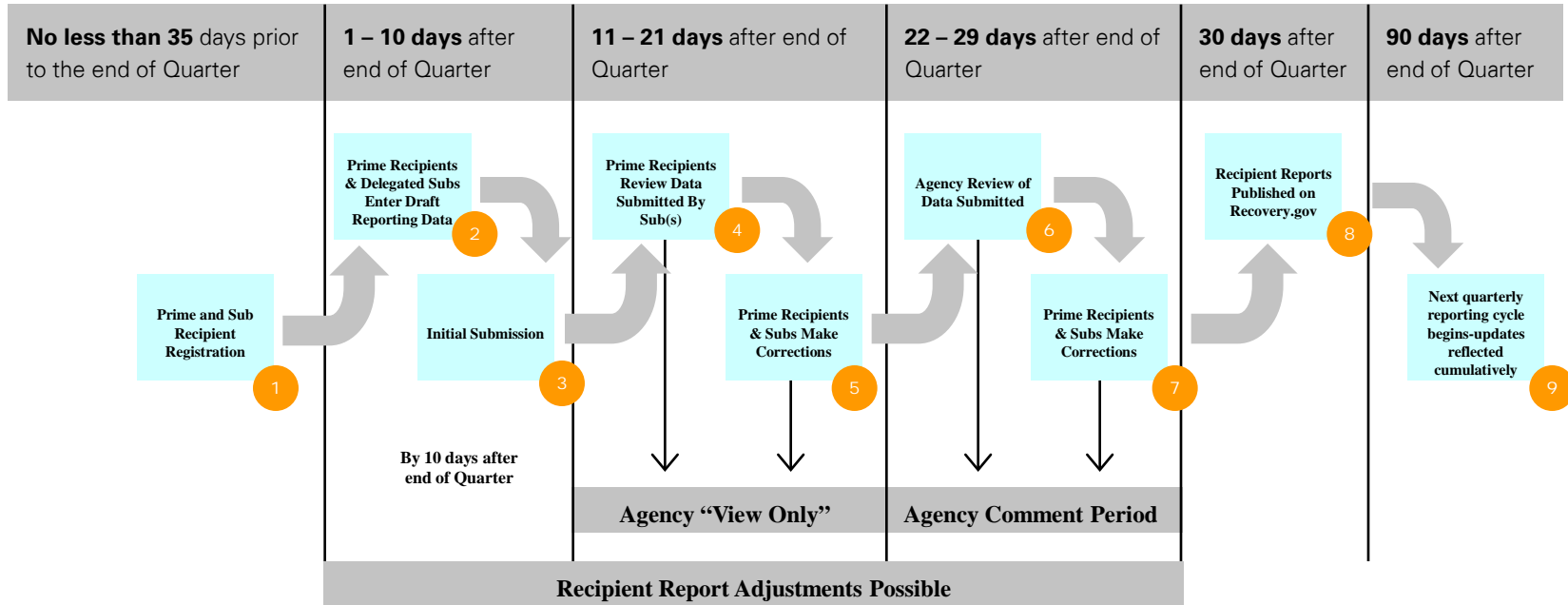


## New Section 1512 Guidance, continued

### Section 3 – Recipient Reporting Process and Timelines

- [FederalReporting.gov](#) will be used for reporting and reviewing data submissions, and the resulting information will be made publicly available on [Recovery.gov](#).
- Provides for three methods to submit reporting to FederalReporting.gov:
  - Online data entry into Web browser
  - Uploading of Excel spreadsheets provided by OMB
  - Custom software extract in XML
- Guidance provides detailed timeline for submission, review and adjustments.
- Review Process – there is now a formal review process that will take place after submission (day 11 to 21). This will actually extend the time that a recipient or sub-recipient can correct material omissions or significant errors

# Reporting Timeline



## New Section 1512 Guidance, continued

### Section 4 – Data Quality Requirements

- All reporting levels should establish controls to help ensure data quality, completeness, accuracy, and timely reporting. Possible approaches or controls are provided in the guidance.
- No separate statement of assurance or certification will be required of prime recipients with respect to the quality of subrecipient data.
- Material omission or significant reporting errors identified in the federal agency review of submissions will be reported to the Recovery Board, and such instances will be made public on Recovery.gov.
- The system automatically defaults to “not reviewed by [federal] agency” status if other reporting status is not selected by the federal agency by day 30.

## New Section 1512 Guidance, continued

### Section 5 – Reporting on Jobs Creation Estimates by Recipients

- Revises requirement for job reporting - prime recipients MUST incorporate vendor and subrecipient jobs; to the maximum extent practical
- Approved statistical methodologies may be used to estimate only if “overly burdensome and costly” for prime recipient to obtain this data
- Clarifies that there are two separate fields for job reporting, one numeric and one narrative
- Provides the formula for recipients to use to convert hours to Full-Time Employees (FTEs).
- Two data elements are required to make the FTE calculation:
  - Total number of hours worked that were funded by Recovery Act
  - Total number of hours in a full-time schedule as defined by the recipient, subrecipient, or vendor.
- Percentage of funding can be used in lieu of FTE calculation for colleges and universities that follow OMB Circular A-21.

# New Jobs Created or Retained

## FTE Formula:

$$\frac{\text{Cumulative Recovery Act Funded Hours Worked (Qtr 1...n)}}{\text{Cumulative Hours in a Full – time Schedule (Qtr 1...n)}} = \text{FTE}$$

- FTEs must be calculated using two data elements:
  1. Total number of hours worked that were funded by ARRA
  2. Total number of hours in a full-time schedule as defined by the recipient, sub-recipient or vendor
- Percentage of funding can be used in lieu of the FTE formula for colleges and universities that follow OMB Circular A-21
- The purpose of this formula is to avoid overstating the number of jobs created in the case where some jobs may not be full-time positions. Thus, this formula converts part-time or temporary jobs into “full-time equivalent” jobs.
- Jobs must be reported cumulatively each quarter. If the same number of employees work the same number of hours in the second quarter, then the same number of FTEs should be recorded in that quarter.

## New Section 1512 Guidance, continued

### Supplement 1 – List of Programs Subject to Recipient Reporting

- 305 programs have been identified as subject to Section 1512
- CFDA numbers have not been included for all programs subject to Section 1512 reporting
- Not all Division B programs are exempt from reporting. Non-exempt examples:
  - Broadband Technology Opportunities Program (BTOP)
  - Health IT Incentive Program
  - Electronic Health Record (EHR) Technology
- Certain Tax Credit programs are also subject to Section 1512 reporting. Examples include:
  - Tax Provisions Implementation Program
  - New Markets Tax Credit
- Certain fiscal relief and entitlement programs are exempt from Section 1512. Examples include:
  - FMAP
  - TANF
  - Extension of Unemployment Benefits Program
  - Title IV-E
- Bond programs are not listed in the supplement and therefore not subject to 1512 reporting.

## New Section 1512 Guidance, continued

### Supplement 2 – Recipient Reporting Data Model

- Provides the listing of updated data elements and definitions, which include xml tags, examples, and source systems.
- Total of 87 data elements
  - 2 are optional
  - 27 are system-populated
  - 58 are items that need to be reported in the Web-based-tool.
- OMB also conducted a 60-day review of the administration’s policy on communications with lobbyists regarding Recovery Act funds and will be issuing a revised guidance on lobbyist communications.

## New Section 1512 Guidance – Items for Consideration

- Recipients that delegate the Section 1512 (c)(4) reporting function will have to establish processes to track and ensure that reporting for all awards has been completed by the 10th day after the end of the reporting quarter.
- Efforts should be undertaken immediately to document and verify CCR registrations, DUNS numbers, etc. for each organization or unit of an organization receiving Recovery Act awards.
- Recipients and subrecipients will need to establish a process to determine and ensure that the required registrations with Dun & Bradstreet (D&B) and CCR are completed timely.
- It is not clear whether a delegated subrecipient can have a decentralized reporting process.
- What criteria can be used to demonstrate that it is not “practicable” to collect jobs information from all subrecipients and vendors?
- Currently, jobs reporting elements cannot be directly reported in FederalReporting.gov by delegated subrecipients – guidance states that this is being considered.
- Recipients will have to provide guidance and establish a process to collect, aggregate, compute, and report job creation consistently and accurately to the feds. What detail of supporting documentation needs to be retained to support these numbers?
- The definitions and criteria to identify jobs retained needs to be clarified and communicated consistently to all subrecipients and vendors

# Recommended Modifications to H.R. 2182

- **Summary of recommended modifications**

- 0.5 percent to cover Single audit ; OMB to publish implementation cost principles
- Criteria for selection of major programs / clusters ; wider latitude for the OMB
- Reduce submission deadline to 6 months; OMB may propose further reduction
- Eliminates granting extensions of submission deadlines, except in conjunction with Federal disaster declarations; OMB to issue guidance
- Mandatory specific internal control requirements; recipient and subrecipient certification
- Coverage in future single audits of the required internal controls and certifications
- Authority and funding for Fed. agencies for resolution activities related to single audits and internal control certifications; their public posting on a website
- OMB to provide criteria for reporting estimates of jobs created and saved under Sec. 1512

# Recommended Modifications to H.R. 2182

## 1. Revise Section 2(b) of H.R. 2182

### Section I:

- Provides that 0.5 percent set-aside shall also cover Single audit costs resulting from the ARRA
- Requires the Director, OMB to publish cost principles to implement these provisions within 90 days of enactment of the Bill

## 2. Add Section 5 to H.R. 2182 - add the following sections to Subtitle A of ARRA :

### **Sec. 1516 – AUDIT COVERAGE OF EXPENDITURES UNDER THE SINGLE AUDIT ACT AMENDMENTS OF 1996**

### Section II:

- Requires the Director, OMB to prescribe criteria for the selection of major programs and clusters of programs funded all, or in part, by ARRA within 90 days from the enactment of this Bill,
- Gives the Director wider latitude than presently exists to do so.

## Recommended Modifications to H.R. 2182 (cont.)

### 2. Add Section 5 to H.R. 2182 - add the following sections to Subtitle A (continued):

#### **Sec. 1516 – AUDIT COVERAGE OF EXPENDITURES UNDER THE SINGLE AUDIT ACT AMENDMENTS OF 1996** (continued)

##### **Section III:**

- Reduces the submission deadline for single audits from 9 months after fiscal year end date to 6 months after fiscal year end date.
- Gives the Director, OMB, authority to propose a further reduction of the submission deadline. However, a proposal for a further reduction may not be made sooner than one year after the 6 month submission deadline becomes effective, and only after soliciting and considering public comments.

##### **Section IV:**

- Eliminates granting extensions of submission deadlines for single audits, except in conjunction with Federal disaster declarations; effective 6 months after enactment of the Bill.
- Requires the Director, OMB to issue guidance for granting such extensions in conjunction with Federal disaster declarations. [Such guidance would cover issues such as applicability to an auditee not located in the geographic area covered by the disaster area, but whose auditor is so located.]

## Recommended Modifications to H.R. 2182 (cont.)

### 2. Add Section 5 to H.R. 2182 - add the following section to Subtitle A (continued):

#### **Sec. 1517 – INTERNAL CONTROLS REQUIREMENTS FOR RECIPIENTS AND SUBRECIPIENTS, AUDIT COVERAGE OF INTERNAL CONTROLS AND AUDIT SUBMISSIONS**

##### **Section V:**

- Requires the Director, OMB to promulgate mandatory specific internal control requirements for ARRA awards and contracts (no later than 60 days from the enactment of this Bill).
- Requires that all recipients and subrecipients certify whether these mandatory controls are suitably designed, established and operating, and only after soliciting and considering public comments.

##### **Section VI:**

- Requires coverage, in future single audits, related to the required internal controls and certifications described in Section V.

## Recommended Modifications to H.R. 2182 (cont.)

### 2. Add Section 5 to H.R. 2182 - add the following section to Subtitle A (continued):

#### **Sec. 1517 – INTERNAL CONTROLS REQUIREMENTS FOR RECIPIENTS AND SUBRECIPIENTS, AUDIT COVERAGE OF INTERNAL CONTROLS AND AUDIT SUBMISSIONS (continued)**

##### **Section VII:**

- Provides authorities, designations, responsibilities and funding for Federal agencies to process and perform resolution activities related to single audits and internal control certifications.
- Provides for public posting on a website of all single audits and internal control certifications required by this Bill.

#### **Sec. 1518 - REPORTING RELATING TO JOBS CREATED and AUDIT COVERAGE OF SUCH REPORTING IN AUDITS PERFORMED IN ACCORDANCE WITH THE SINGLE AUDIT ACT AMENDMENTS OF 1996**

##### **Section VIII:**

- Requires the Director, OMB, to provide criteria for reporting estimates of jobs created and saved under Section 1512 of the Recovery Act (no later than 60 days from the enactment of this Bill)

## The PMO Approach

# Program Management Plan



**Process Approach**

# Managing For Success

## ARRA: The Benefit of “Getting It Right The First Time”

- Localities are facing unprecedented oversight, accountability and transparency requirements to make sure taxpayer dollars are being spent effectively, efficiently and as quickly as possible
- Localities need to limit exposure to compliance requirements that could put funding at risk
- Typical disallowance during first two years of Federal programs is in range of 2 – 10%; need proper controls and processes in place to lessen likelihood

## ARRA: Tips for Managing for Success

- Identify requirements that present greatest risk of noncompliance
- Establish roles, responsibilities, controls and processes to facilitate compliance
- Conduct analysis at agency level of both current systems and specific requirements of the Act to determine agency's readiness to meet them
- If full compliance not possible or feasible, may need to develop alternatives, estimates or requests for waivers

# GASB Pronouncement Update

## Effective Dates—December 31

- December 31, 2008
  - Statement 43—Phase III
  - Statement 45—Phase II
  - Statement 49
- December 31, 2009
  - Statement 45—Phase III
  - Statement 52
  - Statement 55
  - Statement 56
- December 31, 2010
  - Statement 51
  - Statement 53
- December 31, 2011
  - Statement 54

# GASB Statement No. 49

## What is a Pollution Remediation Obligation (PRO)

- A PRO is an obligation to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities:
  - Obligations to clean up spills of hazardous substances
  - Obligations to remove contamination such as asbestos
  - Obligations to perform pollution remediation as part of brownfield redevelopment efforts
  - Obligations to perform pollution remediation as part of a remodeling or improvement project

## What is a Pollution Remediation Obligation (PRO), continued

- PROs *do not* include pollution prevention or control obligations with respect to current operations:
  - Obligations to install smokestack scrubbers
  - Obligations to use environmentally-friendly products
  - Obligations to treat effluent
  - Obligations to install drinking water filtration systems and other systems whose primary purpose is to prepare resources for use rather than to conduct pollution remediation

## What is a Pollution Remediation Obligation (PRO), continued

- Statement 49 does not apply to:
  - Landfill closure and postclosure care obligations within the scope of GASB Statement 18
  - Future pollution remediation activities that will be required upon retirement of an asset during periods preceding the retirement:
    - Nuclear power plant decommissioning
    - Expected asbestos removal upon razing of a building
    - Statement is generally applicable at the time of retirement of the asset

## What is a Pollution Remediation Obligation (PRO), continued

- PRO activities include:
  - Pre-cleanup activities such as site assessments and investigations, feasibility studies, and design of a remediation plan
  - Cleanup activities such as neutralization, containment, disposal activities, and site restoration
  - External government oversight and enforcement-related activities
  - Operation and maintenance of the remedy and postremediation monitoring

## What is a Pollution Remediation Obligation (PRO), continued

- Pollution remediation outlays:
  - Should include all direct outlays attributable to remediation activities
    - Payroll and benefits
    - Equipment and materials
    - Legal and other professional services
  - *May* include estimated indirect outlays
  - Should *not* include outlays from:
    - Fines and penalties
    - Toxic torts
    - Product and workplace safety programs
    - Litigation support involved with potential recoveries

## Recognition and Measurement

- Statement 49 takes an approach to recognition and measurement of a PRO liability that is different from the guidance in FASB Statement No. 5, *Accounting for Contingencies* and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*
- FASB Statement 5
  - Liability recognized only when considered *probable* and *reasonably estimable*
  - Use most likely amount in a range of amounts, or if no likely amount, use low end of range
- GASB Statement 49
  - Recognize upon occurrence of an *obligating event*—outlay not necessarily probable
  - Recognize liability as components become reasonably estimable
  - Measure liability using expected cash flows technique

## Recognition of a PRO

- Recognition of a PRO liability should be determined when one of five obligating events occurs:
  1. The government is compelled to take remediation action because of pollution-caused imminent endangerment leaving it little or no discretion to avoid action
  2. The government is in violation of a pollution prevention related permit or license
  3. The government is named, or evidence indicates it will be named, as responsible party or potentially responsible party for remediation (or cost sharing)
  4. The government is named, or evidence indicates it will be named, in a lawsuit to compel the government to participate in remediation
  5. The government voluntarily commences or obligates itself to commence remediation.

## Recognition of a PRO, continued

- A PRO liability should be recognized as components of the obligation become reasonably estimable; for example:
  - Legal services
  - Site investigation
  - Required postremediation monitoring
- Benchmarks are provided to guide the estimation process:
  - Receipt of an administrative order
  - Participation in a site assessment or investigation
  - Completion of a corrective measures feasibility study
  - Issuance of an authorization to proceed
  - Design and implementation of the remedy through postremediation monitoring

## Measurement

- PRO liabilities should be measured based on the current cost of future activities—what would remediation activities cost today
  - Different from using anticipated amount of future outlays or discounted anticipated amount of future outlays
- PRO liabilities should be measured using the expected cash flow technique:
  - Measures the liability as the sum of probability-weighted amounts in a range of possible estimated outcomes
  - Use all expectations about possible cash flows

## Measurement Example—Two Components

Potential Payment	Probability	(a) x (b)
\$0	60%	\$0
\$9,000	40%	\$3,600
		\$3,600

Potential Payment	Probability	(a) x (b)
\$4,000	60%	\$2,400
\$10,000	40%	\$4,000
		\$6,400
<b>Total Obligation:</b>		<b>\$10,000</b>

## Expected Recoveries from PRPs and Insurance

- Include in the measurement of the PRO expense using expected cash flow technique
- If recovery is not realized or realizable:
  - Net expected recovery against PRO liability
- When realized or realizable:
  - Accrete PRO liability for expected recovery and separately report recovery assets (cash or receivable)

## Expected Recoveries

Potential Payment	Probability	(a) x (b)
\$0	50%	\$0
\$6,000	50%	\$3,000
		\$3,000

## Recoveries Example

Expected outlays	\$ 10,000	
Expected recoveries	<u>3,000</u>	
Net remediation expense		\$ 7,000

- If recovery *not* realized or realizable:
  - Pollution remediation liability = \$ 7,000
- If recovery realized or realizable:
  - Recovery asset (receivable) = \$ 3,000
  - Pollution remediation liability = \$10,000

## Capitalization of PRO Outlays

- Pollution remediation outlays should be reported as an expense when a liability is recognized
- Pollution remediation outlays should only be capitalized when goods and services are acquired if acquired for any of the following:
  - To prepare property in anticipation of a sale (only up to estimated fair value of property)
  - To prepare property for use when the property was acquired with known or suspected pollution expected to be remediated (only outlays necessary to place asset in location and condition for use)
  - To perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment (only outlays expected to be necessary to place asset in location and condition for use)
  - To acquire property, plant and equipment that has a future alternative use (only to the extent of postremediation service utility)

## Capitalization of PRO Outlays—Example

- Expected outlays \$10,000
- Amount related to equipment \$ 2,000
- Postremediation service utility 50%
- Capitalizable outlay (1,000)
- Pollution remediation liability/expense \$ 9,000
- The capitalizable outlay of \$1,000 would be recorded as a capital asset and accounts payable when the equipment is received

## Financial Reporting Display

- Government-wide and proprietary funds:
  - Program or operating expense, special item, or extraordinary item as appropriate
  - No separate display of liability required
- Governmental funds:
  - Expenditures recognized when liquidated with expendable available resources
  - No pollution remediation liability, only payables for goods and services used

## Disclosures

- For recognized liabilities and recoveries:
  - Nature and source of the pollution remediation obligation—for example, federal or state law
  - Liability amount, if not apparent on statement
  - Methods and assumptions used to estimate liability
  - Potential for changes in estimate
  - Estimated recoveries reducing the liability
- For PROs that are not yet recognized because they are not reasonably estimable, disclose a general description of the nature of the pollution remediation activities.

## Effective Date and Transition

- Effective for periods beginning after December 15, 2007
- If governments have sufficient information to apply expected cash flow technique to prior periods presented, apply retroactively to such periods
  - If not, measure liability at beginning of period of implementation so that beginning net assets can be restated.

# GASB Statement No. 51

## Background

- Project born out of questions raised over description of capital assets in Statement 34:
  - “capital assets includes land, easements, buildings...and all other tangible and *intangible assets* that are used in operations and that have initial useful lives extending beyond a single reporting period”
- Uncertainty in practice as to what was meant by *intangible assets* in the description
- Statement 51 issued in June 2007 to reduce inconsistencies in financial reporting
- Additional Statement 51 implementation guidance is included in the Comprehensive Implementation Guide

## Overview

- Statement 51 addresses the following aspects of reporting intangible assets:
  - Description
  - Classification
  - Recognition
    - General recognition requirement
    - Broad approach to recognizing internally generated intangible assets
    - Specific approach to recognizing internally generated computer software
  - Measurement
    - Initial measurement
    - Amortization
  - Impairment
  - Disclosures
  - Transition provisions

## Description

- An intangible asset is an asset that possesses all of the following characteristics:
  - Lack of physical substance
  - Nonfinancial nature
  - Initial useful life extending beyond a single reporting period
- Statement generally does not provide guidance on whether a transaction results in an asset
  - Look to definition of “asset” in Concepts Statement No. 4, *Elements of Financial Statements* for guidance
  - Basis for conclusions does state that powers created through statute or inherent nature of government are not intangible assets

## Lack of Physical Substance

- When determining lack of physical substance, do not consider:
  - Modes of containment
    - For example, computer software lacks physical substance although it may be distributed on a CD
  - Associated tangible property
    - Easements lack physical substance even though they are associated with land
    - Capacity rights to a wastewater treatment plant

## Nonfinancial Nature

- Asset has nonfinancial nature if it is NOT:
  - In a monetary form
    - Cash
    - Investment securities
  - A claim or right to an asset in monetary form
    - Receivables
    - Derivatives
  - A prepayment for goods or services

## Common Types of Intangible Assets

- Right-of-way easements
- Other types of easements
- Patents, copyrights, trademarks
- Land use rights
- Licenses and permits
- Computer software
  - Purchased or licensed
  - Internally generated
  - Websites

## Classification—Basic Guidance

- All intangible assets subject to Statement 51 should be classified as capital assets:
  - All existing authoritative guidance related to capital assets should be applied to these intangible assets
  - Since considered capital assets, not reported as assets in governmental fund financial statements
- Scope exceptions:
  - Intangible assets acquired or created primarily for directly obtaining income or profit
  - Capital leases
  - Goodwill from a combination transaction

# Recognition

- An intangible asset should be recognized only if it is identifiable:
  - Asset is separable, i.e. capable of being separated and sold, transferred, licensed, etc.

**-OR-**

- Asset arises from contractual or other legal rights, regardless of whether rights are separable

## Internally Generated Intangible Assets

- Internally generated intangible assets (IGIA) are:
  - Created or produced by the government or an entity contracted by the government; or
  - Acquired from a third party but require more than minimal incremental effort to achieve expected service capacity
- Statement provides a specified-conditions approach to recognizing outlays associated with IGIA
- Guidance may result in capitalization of certain R&D costs previously expensed under FASB Statement No. 2

## Internally Generated Intangible Assets, continued

- Outlays incurred related to an IGIA that is considered identifiable should be capitalized only upon the occurrence of **ALL** of the following:
  - Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the asset upon completion of the project;
  - Demonstration of the technical or technological feasibility for completing the project so that the asset will provide its expected service capacity;
  - Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset
- Outlays incurred prior to meeting the criteria should be expensed as incurred—no “recycling” of expenses

## Internally Generated Computer Software

- Specific guidance on applying the IGIA specified-conditions approach for internally generated computer software (IGCS) is provided
- IGCS is either:
  - Developed in-house by government personnel or a contractor on their behalf; or
  - Commercially available software modified using more than minimal incremental effort before being put in operation
- Guidance based on development stages similar to AICPA SOP 98-1

## Internally Generated Computer Software, continued

- Activities associated with developing IGCS should be categorized in one of three development stages:
  - Preliminary project stage
    - Conceptual formulation and evaluation of alternatives
    - Determination of existence of needed technology
    - Final selection of alternatives
  - Application development stage
    - Design of the chosen path
    - Coding
    - Installation to hardware
    - Testing and parallel processing
    - Data conversion, if essential to make software operational

## Internally Generated Computer Software, continued

- Post-implementation/operation stage
  - Application user training
  - Software maintenance
  - Data conversion, if not essential to make software operational
- IGIA specified-conditions criteria are considered met for IGCS when:
  - The activities in the preliminary project stage are completed
  - Management authorizes and commits to funding the project
- For commercially available software that is IGCS, these criteria are generally considered met upon the government's commitment to purchase or license software

## Internally Generated Computer Software, continued

- Reporting of activity outlays:
  - Preliminary project stage—expense as incurred
  - Application development stage—capitalize once criteria is met; cease capitalizing when software is operational
  - Post-implementation/operation stage—expense as incurred
- Reporting should be based upon nature of activity, not timing of its occurrence
- No specific guidance on the types of outlays that can be capitalized (e.g. direct costs vs. indirect costs)

## Internally Generated Computer Software, continued

- Preliminary project stage activities generally drive toward determining a final approach for the project:
  - Making strategic decisions to allocate resources between alternative projects
  - Determining performance requirements for project—e.g. user needs study
  - Determining systems requirements for the project and existence of needed technology
  - Exploring alternative means of achieving the project performance requirements
  - Selecting a vendor if commercially available software is to be acquired
  - Selecting a consultant to assist in the development or installation of the computer software

## Internally Generated Computer Software, continued

- Data conversion activities may include:
  - Purging/cleansing of existing data
  - Conversion of data from legacy system to new system
  - Reconciliation of data from legacy system and data in new system
- Data conversion should be considered activity of the application development stage only if necessary to make software operational—otherwise post-implementation/ operation stage
- Consider human resources system vs. vendor information database (Q Z.51.14)

## Internally Generated Computer Software, continued

- Generally apply the development-stage approach to individual modules of multi-module IGCS project (Q Z.51.12)
- Training of employees involved with developing IGCS is not capitalizable (Q Z.51.15)
- Licensing agreement costs for IGCS should be broken into components for application of development-stage approach (Q Z.51.16)
- Reporting of outlays from business process reengineering should be separate from reporting of IGCS outlays (Q Z.51.17)
- NCGA 5/FASB 13 guidance on leases is not applicable to a license to use software (Q Z.51.21)
  - Report asset and liability if installment payments are made over multiple periods

## Internally Generated Computer Software, continued

- Reporting costs of internally generated modifications of software already in operation should follow the development stage approach if the modification results in:
  - An increase in the functionality of the software
  - An increase in the efficiency of the software; or
  - An extension of the estimated useful life of the software
- If modification does not result in one of the above, associated outlays should be expensed as incurred as maintenance
- Extension of useful life without increased functionality or efficiency expected to rarely occur

# Impact of Internally Generated Computer Software Guidance

- Clients will have to establish policies and procedures to apply the IGCS guidance:
  - Classification of activities related to development of software
  - Job costing and cost accumulation
  - Assessment of software capitalization thresholds and evaluation of projects
  - Assessment of internally developed modifications of software
  - Evaluation of useful lives of software systems
- Funding sources for software projects:
  - Availability of bond funds for software projects
  - Changes in federal reimbursement for software costs

## Measurement

- Intangible assets follow measurement guidance for capital assets:
  - Historical cost
  - If donated, estimated fair value at date of donation
- BFC provides Board's non-authoritative views as to determining fair value of donated right-of-way easements for roadways
- Intangible assets excluded from scope because acquired or created to generate income or profit generally should follow guidance for investments

# Amortization

- Existing guidance for depreciation of capital assets generally applies to amortizing intangible assets
  - No mandated maximum amortization period
- Exception for intangible assets with indefinite useful lives:
  - No factors currently exist that limit the useful life of the asset
  - A useful life that must be estimated does not mean indefinite useful life
    - Permanent right-of-way easement vs. computer software
  - Intangible assets with indefinite useful lives should not be amortized
- Useful life of an intangible asset that arises from contractual or legal rights should not exceed the legal term of the rights
- Renewal periods can be considered if there is evidence that:
  - Renewal will be sought and will be able to be achieved, considering any third-party consent; and
  - Any anticipated outlays related to renewal are nominal in relation to the level of service capacity expected to be obtained through the renewal

# Impairment

- The provisions of Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, generally should be applied to determine impairment of intangible assets
- “Development stoppage” added to the impairment indicators in Statement 42
- An implementation guide question details examples of circumstances that may indicate impairment (Q Z.51.28)

## Note Disclosures

- No note disclosure requirements specific to intangible assets
- Intangible assets should be incorporated into the capital asset note disclosures
- An implementation guide question discusses inclusion of intangible assets in major classes of capital assets (Q Z.51.29)

## Effective Date and Transition

- Effective date is fiscal periods beginning after June 15, 2009
- Provisions generally should be retroactively applied
- Exceptions for retroactively reporting intangible assets:
  - Permitted but not required for IGIA to the extent specified-conditions approach can be applied
  - Permitted but not required for intangible assets with indefinite useful lives at transition
  - Required for all other intangible assets acquired in fiscal years ending after June 30, 1980 by phase 1 or 2 governments
  - Encouraged but not required for all other intangible assets of phase 3 governments
- Indefinite useful life provisions should be applied retroactively only if asset has indefinite useful life at transition
- Land use rights associated with property already owned by government should not be reported as intangible assets separate from the property

# GASB Statement No. 52

## Basic Guidance

- Land and other real estate held as investments by endowments should be reported at fair value
- What are considered endowments?
  - Permanent and term endowments
  - Permanent funds
- Quasi-endowments are NOT considered endowments:
  - Certain university and foundation funds
  - Rainy-day funds
  - Other funds that only function *like* an endowment

## Basic Guidance, continued

- Statement only applies to direct investments in real estate
  - Does not apply to investment vehicles that invest in real estate, such as:
    - Real estate investment trusts (REITs)
    - Real estate limited partnerships
- Statement does not apply to other investments held by endowments that may be reported at historical cost under current GAAP
- Land granted by Federal government upon statehood is excluded from scope
- Effective for financial statements for periods beginning after June 15, 2008
- Provisions should be applied retroactively with prior periods presented being restated if practical

# GASB Statement No. 53

# Examples of Derivatives

- Swaps
  - Forward-based contracts in which two parties agree to swap streams of payments for a specified period of time
    - Interest rate swaps
    - Commodity swaps
- Forward/Futures Contracts
  - Contract to purchase/sell a specific quantity of a financial instrument, currency, or commodity at a specific price with delivery and settlement at a specified future date
  - Futures are standardized forward contracts sold in a market
- Options (puts, calls, caps, floors, collars)
  - Allow, but do not require, the holder to buy (call) or sell (put) a commodity or financial instrument at a specified price during a specified period or on a specific date
  - Governments can write (give away) or purchase (hold) the option
  - Examples include puts, calls, caps, floors, collars
  - “Swaptions” give the purchaser of the option the right, but not the obligation, to enter into an interest rate swap

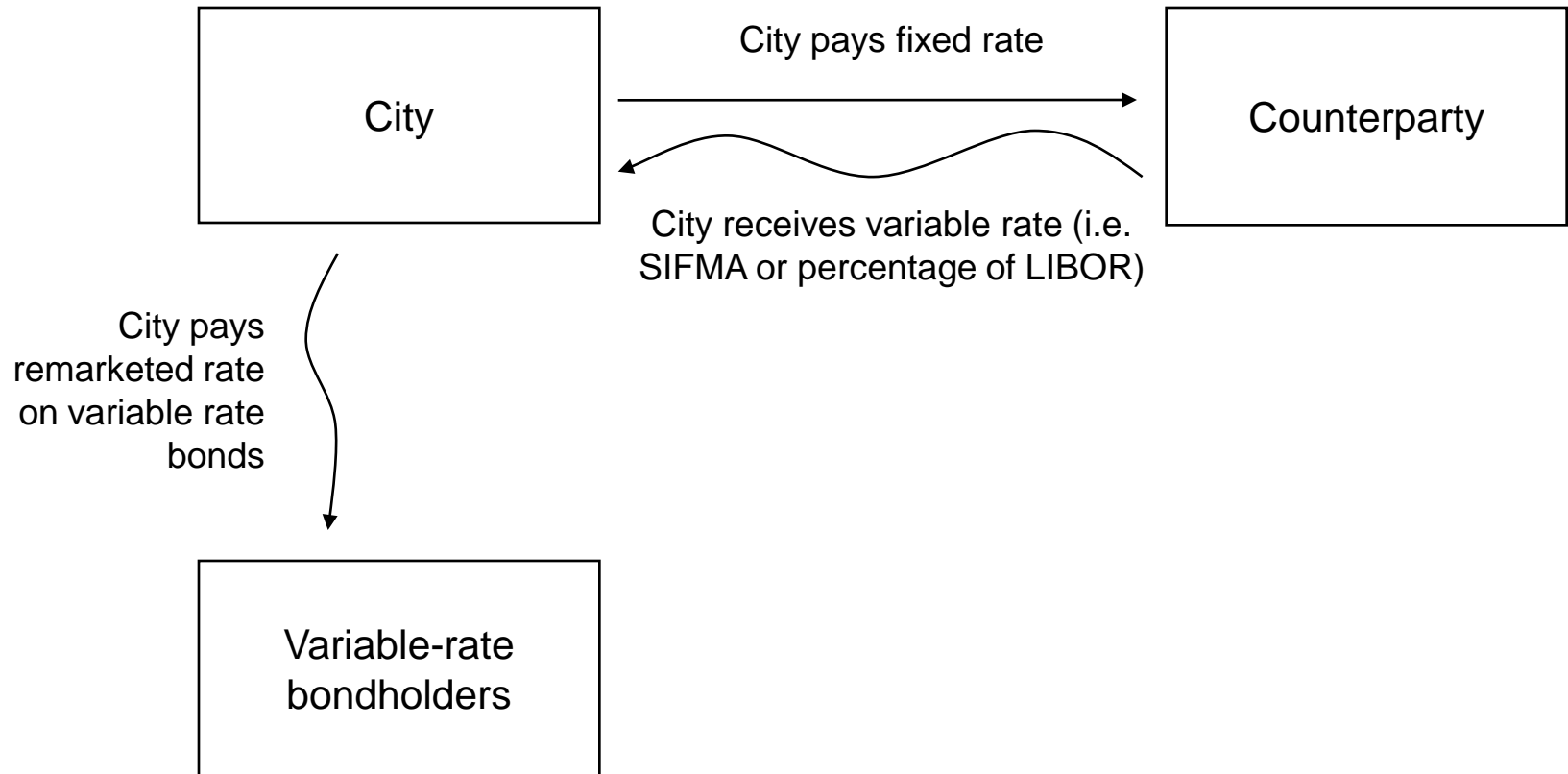
## What Is an Interest Rate Swap?

- An interest rate swap is a derivative that a government enters into with a counterparty where the government “swaps” the rate they are paying on outstanding bonds for another rate
- Generally the most common type of derivative entered into by governments
- Two common types of interest rate swaps:
  - Pay-fixed, receive variable
  - Pay-variable, receive fixed

## Pay-Fixed, Receive-Variable Swap

- Governments generally enter into a pay-fixed, receive variable swap when they have issued variable-rate bonds and they want to “create” a fixed rate on the bonds
- In a pay-fixed, receive-variable swap:
  - The government pays the swap counterparty a fixed rate
  - The swap counterparty pays the government a variable rate
  - The variable rate received by the government is intended to offset the variable rate paid to the bondholders
- Actual swap payments are based on the rates and the “notional amount” of the swap which often matches the outstanding amount of the corresponding debt

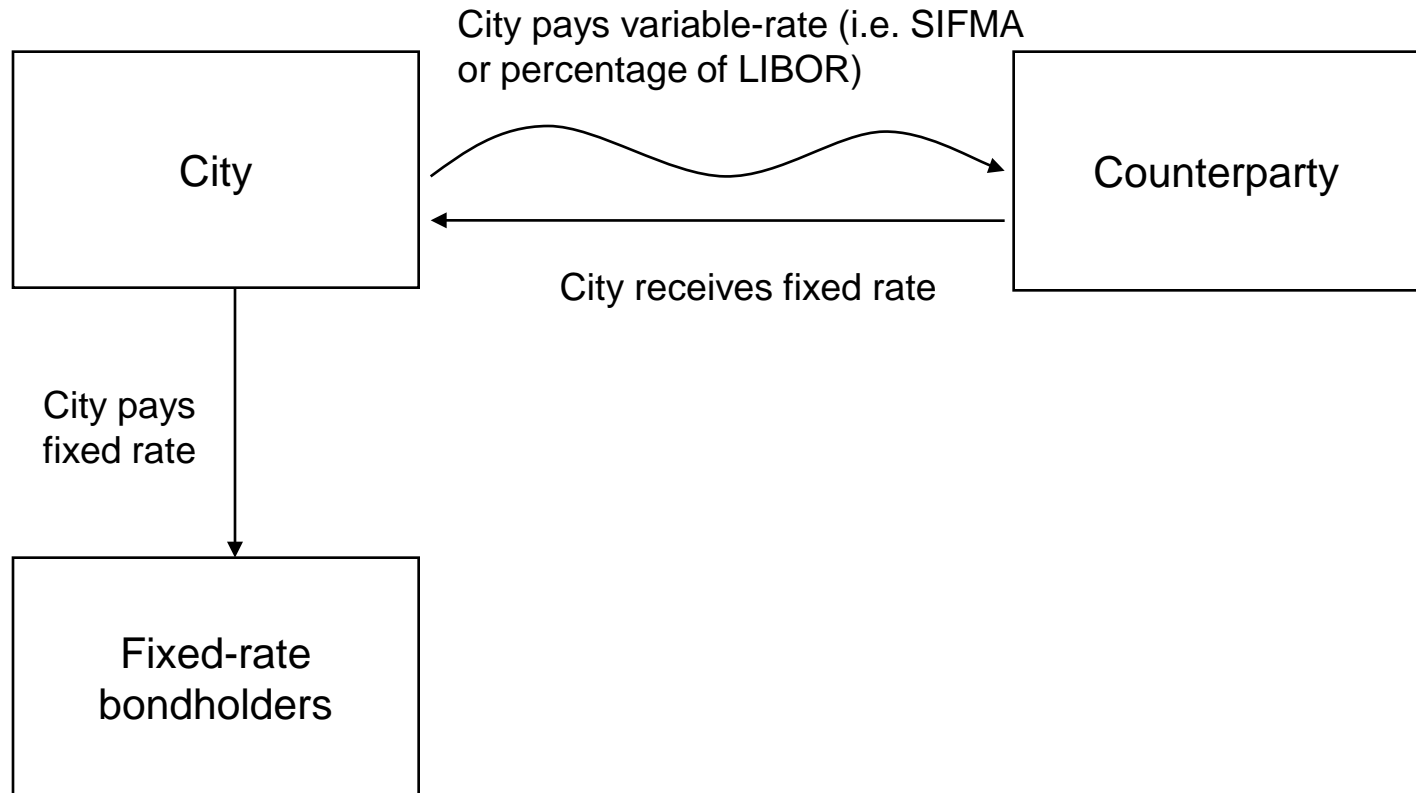
## Pay-Fixed, Receive-Variable Swap, continued



## Pay-Variable, Receive-Fixed Swap

- Governments generally enter into a pay-variable, receive-fixed swap when they have issued fixed-rate bonds and they want to “create” a variable rate on the bonds
- In a pay-variable, receive-fixed swap:
  - The government pays the swap counterparty a variable rate
  - The swap counterparty pays the government a fixed rate
  - The fixed rate received by the government is intended to offset the fixed rate paid to the bondholders
- Actual swap payments are based on the rates and the “notional amount” of the swap which often matches the outstanding amount of the corresponding debt

## Pay-Variable, Receive-Fixed Swap, continued



## Definition of a Derivative

- A derivative instrument is a financial instrument or contract that has all of the following characteristics:
  - Settlement factors
  - Leverage
  - Net settlement
- A derivative instrument can be a freestanding instrument or embedded within another instrument or contract
- Some scope exceptions to this definition
  - Normal purchases and normal sales

## Settlement Factors

- Settlement factors determine the amount of the derivative's settlement payment
- To meet the settlement factors characteristic, the instrument must have:
  - One or more reference rates (underlings)
  - One or more notional amounts or payment provisions or both
- For an interest rate swap:
  - Reference rate is the interest rate index
  - Notional amount is the stated dollar amount of the swap; it often matches the amount of the related debt

# Leverage

- An instrument meets the leverage characteristic if it requires little or no net upfront investment yet responds to market changes similarly to contracts that require net investment
- Interest rate swaps:
  - Typically require no upfront payment to execute
  - Will have changes in fair value similar to a fixed-rate debt security as market interest rates change

## Net Settlement

- Net settlement is a one-way transfer of an asset, usually cash, from the party in a loss position to the party in a gain position
- An instrument meets the net settlement characteristic if:
  - Its contract terms explicitly require or implicitly permit net settlement
  - It can be readily settled net outside the contract through a market mechanism; or
  - It provides for delivery of an asset that is readily convertible to cash or is itself a derivative instrument
- Interest rate swaps are typically required to be settled through a net cash payment

## Basic Accounting Guidance

- Report derivatives at fair value on statements of net assets
- Periodic changes in fair value reported in the change statements as investment income unless derivative is a “hedging derivative instrument”
- Hedge accounting must be applied for hedging derivative instruments:
  - ALL changes in fair value of derivative reported as deferred inflows or deferred outflows
- The measurement provisions of the Statement should NOT be applied to derivatives reported in governmental funds
- In these funds, derivatives should continue to be reported at historical cost, which is most often zero

# Hedging Derivative Instruments (HDI)

- An HDI is established if both are met:
  - Derivative instrument is associated with a hedgeable item:
    - Single asset or liability or portion thereof
    - Groups of similar assets and liabilities
    - Expected transaction
    - Not reported at fair value
  - Derivative instrument is effective in significantly reducing the identified financial risk

## Hedging Derivative Instruments (HDI), continued

- For an interest rate swap the related debt is the hedgeable item
- Pay-fixed, receive-variable swaps are cash flow hedges and the identified financial risk being hedged is typically:
  - Overall changes in cash flows on the related debt
  - Changes in cash flows on the related debt due to changes in a “benchmark interest rate”
- Pay-variable, receive-fixed swaps are fair value hedges and the identified financial risk being hedged is typically:
  - Overall changes in fair value on the related debt
  - Changes in fair value on the related debt due to changes in a “benchmark interest rate”

## Hedge Effectiveness

- A hedging derivative instrument is considered effective when its changes in cash flows or fair values substantially offset the changes in cash flows or fair values of the hedged item
- The ED describes the following methods to determine substantial offset:
  - Consistent critical terms
  - Quantitative techniques
    - Synthetic instrument method
    - Dollar offset
    - Regression analysis
    - Other qualifying methods
- Testing should be performed at the end of each reporting period

## Disclosures

- Application of TB 2003-1 disclosures to all derivatives considered hedging derivative instruments
  - Certain additions to credit risk disclosures
- Generally provide applicable Statement 40 disclosures for other derivatives
  - Apply credit risk disclosures for hedging derivatives
- Provide a summary of derivatives by type
- Disclosures on contingent features
  - For example, terms that require the government to post collateral

## Effective Date and Transition

- Effective for financial statements for periods beginning after June 15, 2009
- Provisions should be retroactively applied; restate prior periods presented if practical
- Perform effectiveness testing of existing HDIs at the end of the period of implementation:
  - If effective, apply as if effective since inception
  - If ineffective, test as of end of prior period:
    - If effective, write-off deferral during implementation period
    - If ineffective, fair value incorporated into cumulative effect of change in accounting

## GASB Statement No. 54

*Note: Items in italics indicate changes from the Exposure Draft of the Statement*

## Overview

- GASB Statement No. 54 issued March 2009
- Project initiated in 2002
  - Diversity in practice in reporting reserved fund balance vs. unreserved fund balance
  - Different interpretations of certain aspects of definitions of governmental fund types
  - Confusion over relationship between reserved fund balance and restricted net assets
- Project originally included clarification of net asset restrictions resulting from enabling legislation—became Statement No. 46
- Invitation to Comment issued in October 2006
- Exposure Draft issued in April 2008

# Current Components of Fund Balance

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
<b>Fund balances:</b>							
<b>Reserved for:</b>							
<b>Encumbrances with</b>							
continuing appropriations	125,000	44,000	13,000	—	—	2,000	184,000
Long-term receivables	50,000	—	—	—	—	—	50,000
Inventory	75,000	64,000	3,000	—	—	12,000	154,000
Permanent fund principal	—	—	—	—	—	152,000	152,000
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Pothole repair	—	124,000	—	—	—	—	124,000
Debt service reserve	—	—	—	206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Other capital projects	—	24,000	—	—	101,000	—	125,000
Law enforcement	—	—	—	—	—	62,000	62,000
Other purposes	60,000	—	—	—	—	—	60,000
<b>Unreserved:</b>							
<b>Designated, reported in:</b>							
General fund	200,000	—	—	—	—	—	200,000
Special revenue funds	—	34,000	73,000	—	—	102,000	209,000
Capital projects funds	—	—	—	—	201,000	—	201,000
<b>Undesignated, reported in:</b>							
General fund	400,000	—	—	—	—	—	400,000
Special revenue funds	—	444,000	103,000	—	—	202,000	749,000
Debt service funds	—	—	—	306,000	—	22,000	328,000
Capital projects funds	—	—	—	—	401,000	—	401,000
<b>Total fund balances</b>	<b>1,285,000</b>	<b>734,000</b>	<b>192,000</b>	<b>512,000</b>	<b>1,004,000</b>	<b>554,000</b>	<b>4,281,000</b>

## Fund Balance Components

- Basic principle - “Fund balance for governmental funds should be reported in classifications that primarily comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in that fund can be spent.”
- GASB 54 details five components of fund balance:
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned
- *ED had referred to categories other than nonspendable as “spendable fund balance”*

## Fund Balance Components, continued

- Nonspendable fund balance includes amounts that cannot be spent because they are either:
  - Not in spendable form
    - Inventories
    - Prepaid items
    - *Long-term amount of loans and notes receivable and property acquired for resale, if use of proceeds from collection/sale or not otherwise constrained*
      - *If use of proceeds is constrained, report under appropriate other fund balance category*
  - Legally or contractually required to be maintained intact
    - Corpus of a permanent fund

## Fund Balance Components, continued

- Restricted fund balance
  - Amounts that are restricted to specific purposes, pursuant to the definition of “restricted” in paragraph 34 of Statement 34, as amended by Statement 46
    - *Exception: Amounts required to be retained in perpetuity—should be reported as nonspendable*
  - Restrictions can be imposed by
    - External parties, such as creditors, grantors or other governments
    - Constitutional provisions
    - Enabling legislation

## Fund Balance Components, continued

- Committed fund balance
  - *Referred to as limited fund balance in ED*
  - Amounts that can only be used for specific purposes pursuant to formal action of the government's highest level of decision-making authority
  - Amounts cannot be used for any other purpose unless constraint is changed by similar action
  - *Should incorporate contractual obligations to the extent existing resources in the fund have been specifically committed to satisfy them*
  - Committing action must be taken prior to year-end, but amount may be determined in subsequent period

## Fund Balance Components, continued

- Restricted through Enabling Legislation vs. Committed
  - Restricted through Enabling Legislation
    - Use restriction is included as part of the legislation creating the revenue source
    - Use restriction is considered legally enforceable
  - Committed
    - Use constraint is imposed unilaterally by government separate from legislation creating the revenue source
    - Amounts may be redeployed for other purposes with appropriate due process
    - Use constraint is not legally enforceable

## Fund Balance Components, continued

- Assigned fund balance
  - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed
  - Intent should be expressed by:
    - Governing body itself; or
    - Subordinate high-level body or official possessing such authority in accordance with government's policy
  - All *positive* remaining fund balance in governmental funds other than the general fund not considered nonspendable and not restricted or committed is assigned
  - Fund balance in general fund intended for specific use narrower than general purpose of the government is assigned
    - An assignment should not result in a deficit in unassigned fund balance
  - *An appropriation of existing fund balance to eliminate a projected budgetary deficit included as a budgetary resource in subsequent year's budget is assignment of fund balance*
    - *Amount cannot exceed projected excess of expected expenditures over expected revenues*

## Fund Balance Components, continued

- Committed vs. Assigned
  - Key difference between committed and assigned is the level of action that establishes and needed to abolish the constraint on resources:
  - Committed
    - The creation of the constraint is done through the government's highest level of formal action
    - Any abolition of the constraint can only be done through the same level of formal action
  - Assigned
    - Created by expression of intent by authorized body or individual as per government policy
    - No formal action required to abolish the constraint
    - Appropriation of fund balance for subsequent year's budget is assigned because constraint can be abolished without highest level of formal action

## Fund Balance Components, continued

- Unassigned fund balance
  - Residual fund balance classification for the general fund
  - *Positive* unassigned fund balance should not be reported in governmental funds other than the general fund
    - *If expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, **negative** unassigned fund balance may be reported*

## Classifying Fund Balance Amounts

- Amount to be reported as nonspendable fund balance should be determined before classifying other fund balance components
- To determine components of fund balance, government will have to follow policy for:
  - Whether restricted or unrestricted amounts are spent first when both are available
  - Which unrestricted category (committed, assigned, unassigned) is spent first when amounts are available in some or all categories
  - *If government has no policy for order of use of unrestricted resources, order should be: committed; assigned; unassigned*

## Classifying Fund Balance Amounts, continued

- *If expenditures incurred for a specific purpose exceed amounts restricted, committed or assigned for that purpose, resulting in negative residual balance for that purpose:*
  - *In other governmental funds:*
    - *First, amounts assigned to other purposes in the fund should be reduced to eliminate deficit*
    - *If all assigned balances are eliminated and deficit still remains, report negative unassigned fund balance*
    - *Restricted and committed fund balances should not be reduced*
  - *In general fund, negative residual balance is eliminated by reducing unassigned fund balance*

## Displaying Fund Balance Categories

- Amounts for the two components of nonspendable fund balance may be displayed either:
  - Separately; or
  - In the aggregate
    - Disclose individual amounts in the notes
- Restricted, committed and assigned fund balances may be displayed either:
  - In a manner that distinguishes between major purposes; or
  - In the aggregate
    - Disclose balances of major purposes in the notes
- *May display some fund balance categories in the aggregate and others in detail*

# GASB 54 Fund Balance Presentation—Specific Purpose Details Displayed

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
<b>Fund balances:</b>							
<b>Nonspendable:</b>							
Inventory	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000
Permanent fund principal	—	—	—	—	—	\$ 164,000	164,000
<b>Restricted for:</b>							
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Highways	—	—	—	—	\$ 444,000	—	444,000
Road surface repairs	—	24,000	—	—	—	—	24,000
Debt service reserve	—	—	—	\$ 206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Law enforcement	—	—	—	—	—	214,000	214,000
Other capital projects	—	—	—	—	51,000	—	51,000
Other purposes	30,000	—	—	—	—	—	30,000
<b>Committed to:</b>							
Zoning board	16,000	—	—	—	—	—	16,000
Economic stabilization	210,000	—	—	—	—	—	210,000
Homeland security	110,000	—	—	—	—	—	110,000
Education	50,000	—	103,000	—	—	—	153,000
Health and welfare	75,000	—	—	—	—	—	75,000
<b>Assigned to:</b>							
Parks and recreation	50,000	—	—	—	—	—	50,000
Library acquisitions	50,000	—	—	—	—	—	50,000
Highway resurfacing	—	258,000	—	—	—	—	258,000
Debt service	—	—	—	306,000	—	—	306,000
Public pool	—	—	—	—	121,000	—	121,000
City Hall renovation	—	—	—	—	60,000	—	60,000
Other capital projects	50,000	—	—	—	471,000	—	521,000
Other purposes	80,000	—	73,000	—	—	176,000	329,000
<b>Unassigned:</b>	525,000	—	—	—	—	—	525,000
Total fund balances	\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 1,448,000	\$ 554,000	\$ 4,842,000

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate if sufficient detail is provided in the notes to the financial statements.

# GASB 54 Fund Balance Presentation—Classification Totals Displayed— Details Disclosed in the Notes

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
<b>Fund balances:</b>							
<b>Nonspendable</b>	\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 164,000	\$ 413,000
<b>Restricted</b>	405,000	24,000	—	\$ 206,000	\$ 796,000	214,000	1,645,000
<b>Committed</b>	461,000	—	103,000	—	—	—	564,000
<b>Assigned</b>	230,000	258,000	73,000	306,000	652,000	176,000	1,695,000
<b>Unassigned</b>	525,000	—	—	—	—	—	525,000
Total fund balances	<u>\$ 1,746,000</u>	<u>\$ 390,000</u>	<u>\$ 192,000</u>	<u>\$ 512,000</u>	<u>\$ 1,448,000</u>	<u>\$ 554,000</u>	<u>\$ 4,842,000</u>

## Stabilization Arrangements

- Amounts formally set aside for use in emergency situations or when revenue shortages arise—“rainy day funds”
- Formal action that imposes parameters for spending should describe specific circumstances under which a need for stabilization arises
- Circumstances should not be expected to occur routinely
- Stabilization is considered to be a specific purpose for purposes of classifying fund balance
- Stabilization amounts should be reported as restricted or committed if they meet the respective criteria
  - Stabilization amounts should not be reported as assigned

## Encumbrances

- If government uses encumbrance accounting, disclose significant amounts in the notes in conjunction with disclosures on other significant commitments
- *Encumbering amounts for specific purposes:*
  - *If resources have already been restricted, committed or assigned, no separate display of encumbered amount*
  - *If resources have not already been restricted, committed or assigned, amount encumbered should be considered committed or assigned, as appropriate.*
    - *An encumbrance is not a purpose*

## Other Fund Balance Disclosures

- Classification Policies and Procedures
  - Committed fund balance
    - Government's highest level of decision-making authority
    - The formal action required to be taken to establish or amend a fund balance commitment
  - Assigned fund balance
    - Body or official authorized to assign amounts to a specific purpose
    - Policy established by the governing body pursuant to which assigning authority is given
  - Policies on order of spending fund balance amounts
- Any minimum fund balance policies

## Other Fund Balance Disclosures, continued

- Stabilization Arrangements
  - The authority for establishing stabilization arrangements
  - The requirements for additions to the stabilization amount
  - The conditions under which amounts may be spent
  - *The stabilization balance if not apparent on the face of the financial statements*
  - Disclosures required even if arrangement does not meet criteria to be restricted or committed

## Governmental Fund Definitions - Special Revenue Funds

Statement 54 definition:

- Special revenue funds are used to account for and report the proceeds of specific revenue sources that are **restricted or committed to expenditure** for specified purposes other than debt service or capital projects. **The term “proceeds of specific revenue sources” establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.** Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

## Governmental Fund Definitions - Special Revenue Funds, continued

- Revenues that are restricted or committed should continue to comprise a significant portion of the inflows reported in a special revenue fund
  - *Discontinue reporting SRF if government no longer expects this to be the case—report remaining resources in general fund*
- Other resources (investment earnings and transfers, for example) may also be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund
- *Specific restricted or committed revenues initially received in another fund and subsequently distributed to a special revenue fund should be reported as revenue in the special revenue fund*
- Stabilization arrangements usually will not meet the definition of a special revenue fund because they are often not derived from a specific revenue source
- Disclose in the notes for each major special revenue fund:
  - Purpose of the fund
  - Revenues and other resources reported in the fund

## Governmental Fund Definitions , Continued

Statement 54 definition:

- Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
- Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

## Effective Date and Transition

- Statement effective for fiscal periods beginning after June 15, 2010; early implementation encouraged
- Reclassify fund balance for all prior periods presented in financial statements
- Changes to fund balance information in the statistical section may be made prospectively, although retroactive application is encouraged

## With You Today



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# Questions?

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