

Thirteenth Annual Satellite Teleconference

2008 Annual Governmental GAAP Update

Government Finance Officers
Association

November 6, 2008



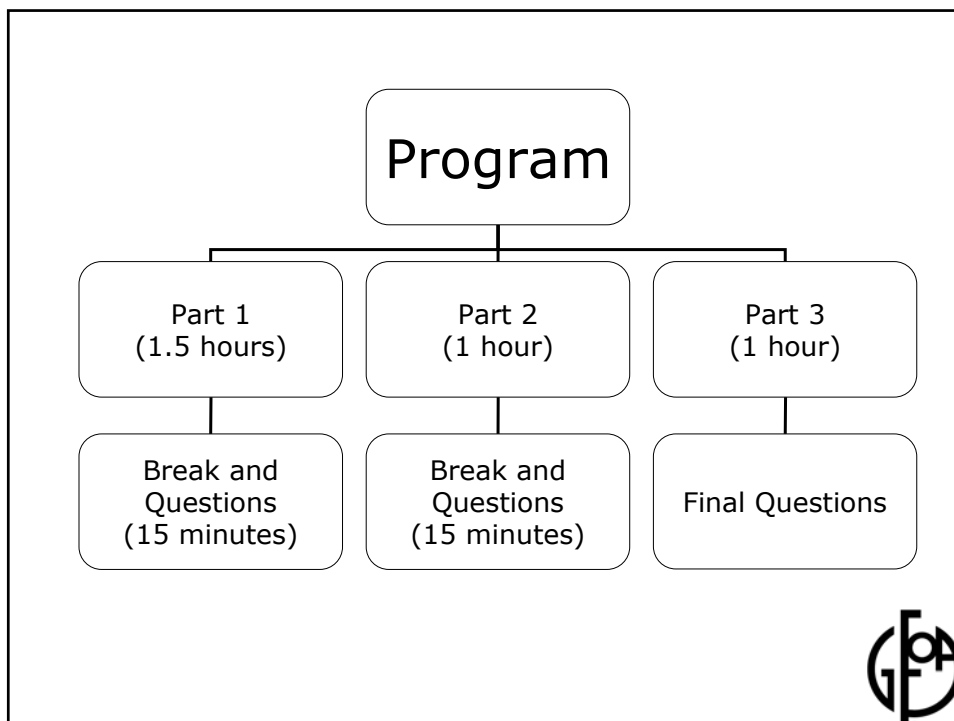
Introduction

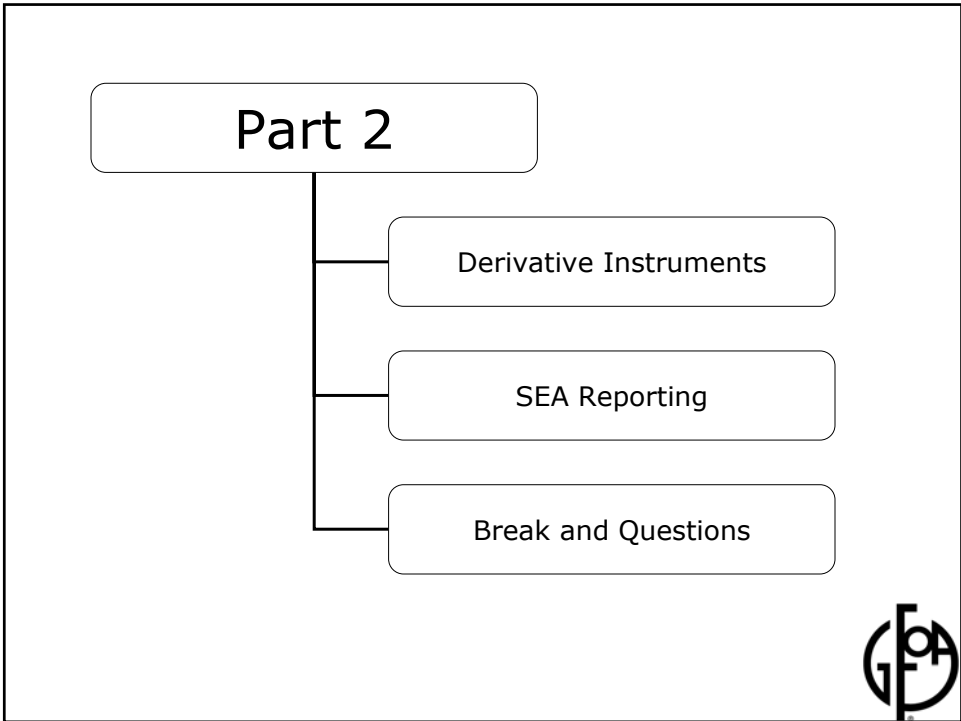
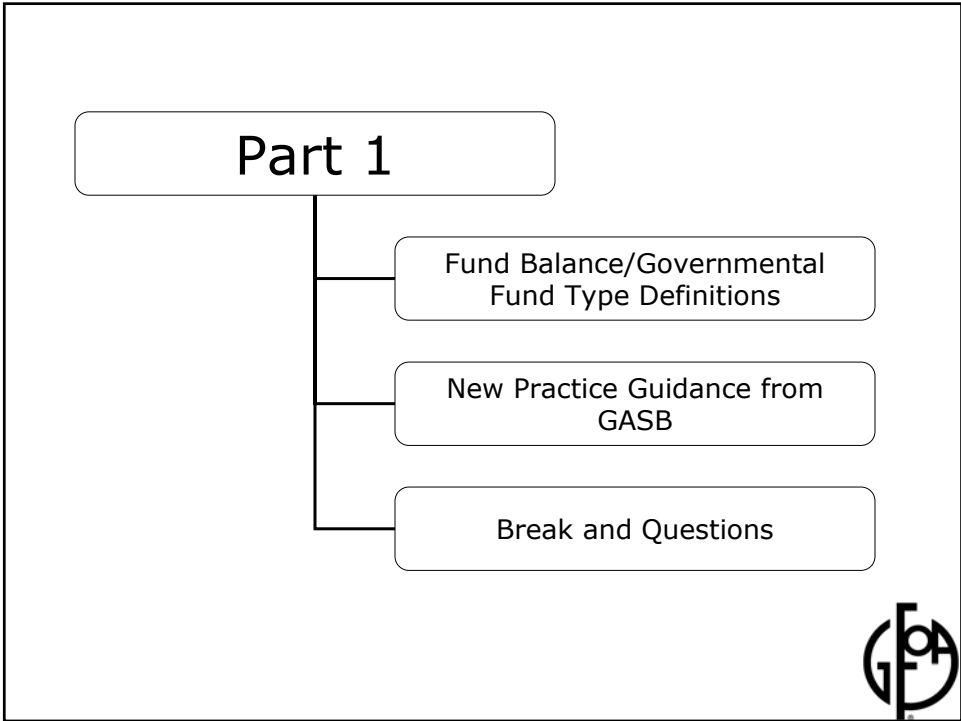
- ◆ Welcome to GFOA's Annual Governmental GAAP Update
- ◆ Thirteenth year offered via satellite teleconference

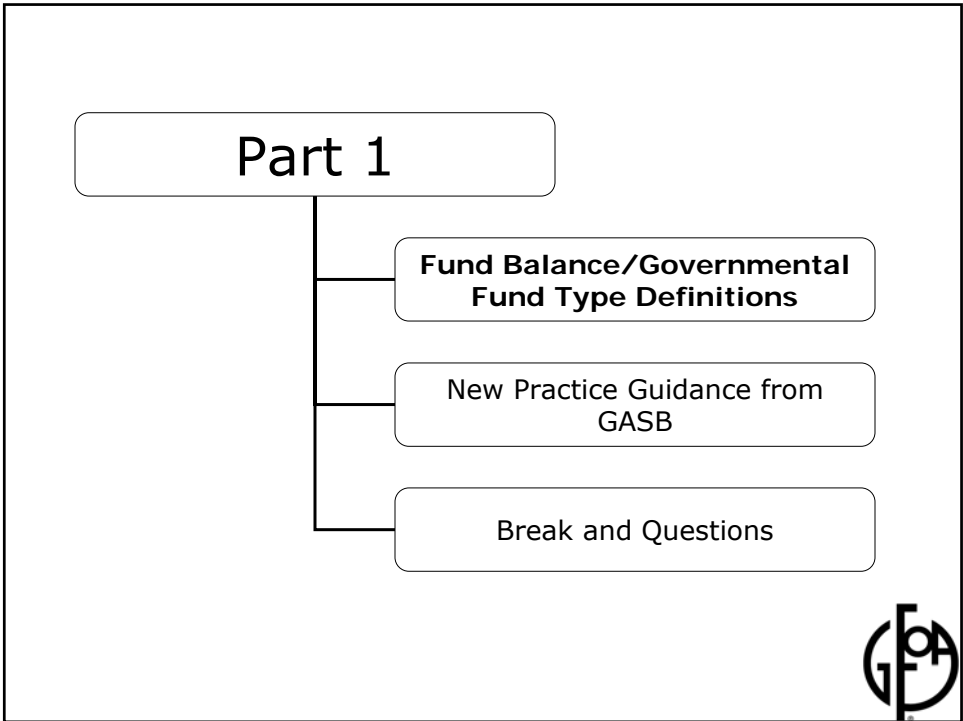
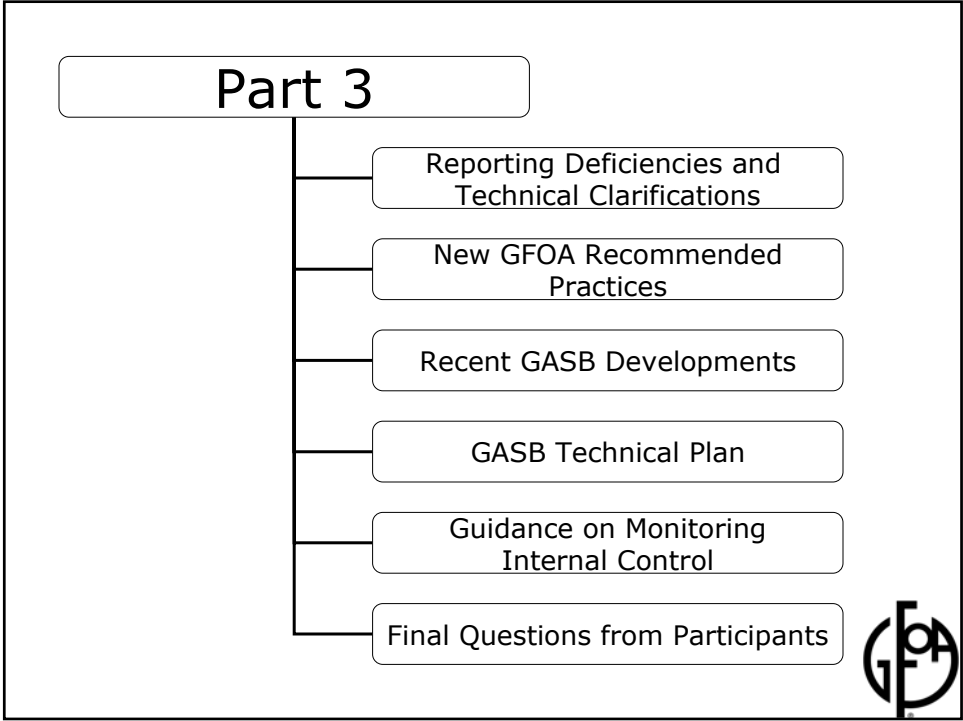


How to contact us

- ◆ Technical difficulties?
 - Telephone: (773) 267-8878.
- ◆ Questions?
 - satellite@gfoa.org







Fund Balance/Definitions of Governmental Fund Types

Pending GASB Statement



Background – fund balance

- ◆ Traditional terminology
 - Focus on availability
 - ◆ *Reserved v. unreserved*
 - ◆ *Designated v. undesignated*
- ◆ Need for change
 - Insufficiently descriptive
 - Inconsistent practice



Categorization

- ◆ Can the resources actually be spent?
 - *Nonspendable* resources
 - ◆ Inventory, prepaid rent, corpus of permanent endowment
 - ◆ Long-term portion of loans and notes receivable
 - If proceeds not restricted, committed, or assigned
 - ◆ Property acquired for resale (if not under contract for near-term sale)
 - If proceeds not restricted, committed, or assigned



Categorization (cont.)

- ◆ Are there resources that can be spent only for specified purposes?
 - Restricted
 - Committed*
 - Assigned*



Restricted

- ◆ Constraints on purpose/circumstances of spending that are legally enforceable by outside parties
 - Creditors
 - Grantors and contributors
 - Law or regulations of other governments
 - Constitutional provisions/enabling legislation
- ◆ Same rules now used to classify *restricted net assets*



Committed

- ◆ Constraints on purpose/circumstances of spending imposed by government itself
 - Formal action
 - ◆ Means will differ among governments
 - Highest level of decision-making authority
 - Prior to the end of the reporting period
- ◆ Contractual obligations to be satisfied with existing resources of the fund
- ◆ Committed v. restricted
 - Restricted = legally enforceable by outside parties



Assigned

- ◆ Intent to use resources for a specific purpose
 - Governing body
 - Subordinate high-level body or official delegated to make such assignments in accordance with policy established by the governing body
 - ◆ Governing body's intentions not management's
- ◆ How intent expressed/communicated will vary



Unassigned

- ◆ Residual balance reported in general fund
 - The use of some other fund type presumes that all of the resources reported in that fund are either restricted, limited, or assigned
- ◆ Also used to report deficits in other fund types



Stabilization (“rainy day”) funds

- ◆ Resources that can be spent only if certain specific circumstances occur
 - Use of special revenue fund for this purpose *not* permitted
 - Report in general fund
 - ◆ Restricted or committed
 - Presumption that specific circumstances in which spending is permitted “would not be expected to occur routinely”
 - Never classified as assigned



Encumbrances

- ◆ Note disclosure (commitments)
- ◆ Categorization for display purposes dependent on nature of constraint



Fund type definitions

- ◆ Special revenue funds
- ◆ Capital projects funds



Special revenue funds

- ◆ History
 - Designed for specific revenue *sources*
 - Often used for resources that have been "earmarked," regardless of source.
- ◆ Restrict use to resources generated by specific revenue sources
 - Government free to transfer in additional resources, provided that the resources generated by the specified revenue source remained significant



Capital projects funds

- ◆ Two required characteristics
 - Capital (v. operating)
 - Project (i.e., nonroutine)
- ◆ Restrictions on use
 - “Acquisition or construction of capital assets that clearly comprise facilities”
 - ◆ Buildings, building improvements, infrastructure assets (and ancillary items integral to such projects)
 - Not for non-project items
 - ◆ Buses, fire trucks, computer workstations



Level of detail

- ◆ No requirement for separate *display*
 - Nonspendable because of form
 - Nonspendable because of legal limitation
- ◆ Specific purposes for which restricted, committed or assigned
 - Display or disclosure



Disclosure

- ◆ Committed fund balance
 - Government's highest decision-making authority
 - Formal action required to establish, modify or rescind a commitment
- ◆ Assigned fund balance
 - Body or official authorized to make assignments
 - Policy established by the governing body pursuant to which that authorization is given.



Disclosure (cont.)

- ◆ Flow assumptions
 - Whether restricted or unrestricted resources are considered to be spent first when both are available for the same purpose
 - Order in which committed, assigned, and unassigned resources are considered to be spent when they are available for the same purpose



Disclosure (cont.)

- ◆ Stabilization arrangements
 - Authority for establishing
 - Requirement for additions
 - Conditions that need to be met for spending to be permitted.
- ◆ Minimum fund balance requirements
 - Description of the policy that sets forth the details of the requirement, including the action taken to establish it.



Effective date

- ◆ Fiscal years ending June 30, 2011
 - Earlier implementation would be encouraged



Question 1

Which of the following would be reported as *restricted fund balance*?

- A. Prepaid rent
- B. Endowment
- C. Both (A) and (B)
- D. None of the above



Question 2

Which of the following would never be a positive balance in a special revenue fund?

- A. Restricted
- B. Limited
- C. Assigned
- D. Unassigned



Question 3

How would a limitation on spending imposed by a resource contributor be categorized?

- A. Restricted
- B. Committed
- C. Assigned
- D. (A) or (B)



Question 4

The governing body of a city with a 6/30 FYE votes early in July to require that specified resources be spent only for a specified purpose. How should that constraint be reflected in *fund balance*?

- A. Restricted
- B. Committed
- C. Either (A) or (B)
- D. None of the above



Question 5

What is the key difference between *restricted* and *committed*?

- A. Duration
- B. Form
- C. Enforceability
- D. Focus on availability



Question 6

Assigned fund balance is designed to reflect the intent of:

- A. Management
- B. Governing body
- C. Either (A) or (B)



Question 7

How may a stabilization (“rainy day”) fund be reported?

- A. Special revenue fund
- B. Restricted (general fund)
- C. Committed (general fund)
- D. Assigned (general fund)
- E. Either (B) or (C)



Question 8

The basis for establishing a special revenue fund should be:

- A. Earmarked resources
- B. Revenue sources
- C. Either (A) or (B)



Question 9

A capital projects fund may be established to account for the acquisition of which of the following?

- A. Fire trucks
- B. Building improvements
- C. Equipment
- D. None of the above

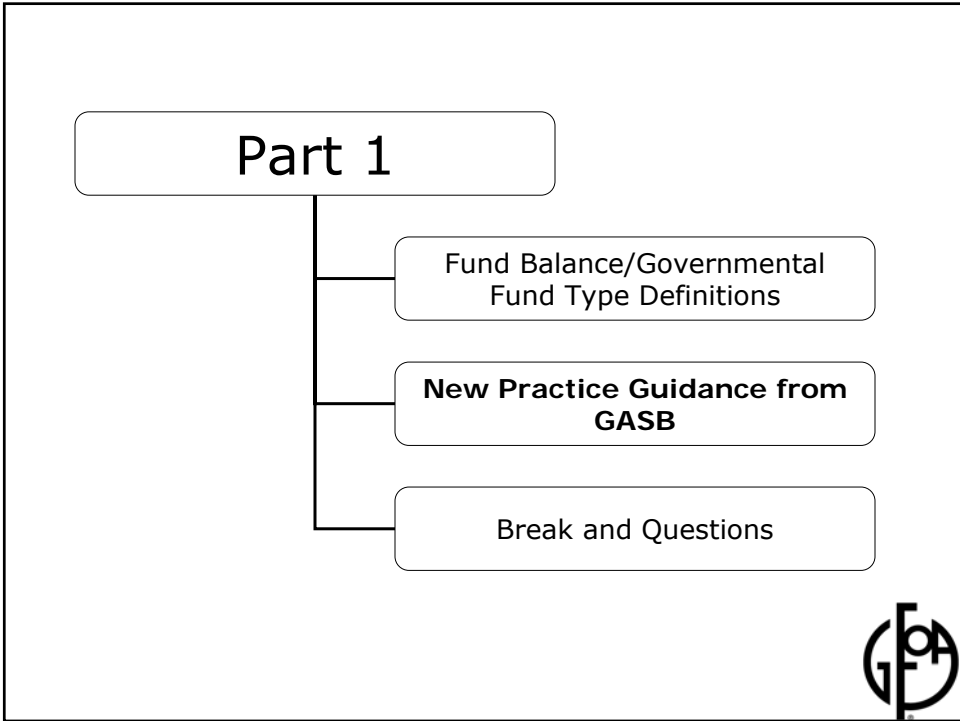


Question 10

The term *nonspendable fund balance* essentially covers the same items encompassed by the traditional term *reserved fund balance*.


True False





New Practice Guidance from GASB

Revision of GASB's
Comprehensive
Implementation Guide



New v. amended guidance

- ◆ An asterisk (*) indicates that an existing question has been modified
 - Modifications underscored



Cash flows reporting

GASB Statement No. 9



Pollution remediation

- ◆ **Question:** Does the fact that pollution obligations are reported net of recoveries affect cash flows reporting? [2.16.2]
- ◆ **Answer:** No. Cash flows are reported gross per GASB 9



Factored receivables*

- ◆ **Question:** What kind of cash flow is a payment received in exchange for the right to future collections of delinquent receivables? [2.23.2]
- ◆ **Answer:** Three possibilities:
 - Sale?
 - ◆ Operating activities
 - Pledge?
 - ◆ Noncapital financing activities
 - ◆ Capital and related financing activities



Investments

GASB Statement No. 31



Monies held temporarily in pool*

- ◆ **Question:** Should collections held in a county pool prior to remittance be treated as investments by the county?
[6.34.4]
- ◆ **Answer:** No. They are receivables of the participating governments and therefore do *not* qualify as investments
 - Report in an agency fund



Reporting model

GASB Statement No. 34



Asset transfers

- ◆ **Question:** Should capital assets transferred within the reporting entity be reported gross or net of accumulated depreciation? [7.9.9]
- ◆ **Answer:** Both the asset and related accumulated depreciation should be reported



Infrastructure and easements*

- ◆ **Question:** How should the donation of a street and related right-of-way easement be reported? [7.12.6]
- ◆ **Answer:** Report infrastructure and easement as separate assets
 - Easement at acquisition cost
 - ◆ Value of easement typically approximates value of land



Items associated with infrastructure*

- ◆ **Question:** How should land and easements associated with infrastructure be reported? [7.12.16]
- ◆ **Answer:** Report both land and easement separately
 - Depreciation/amortization as appropriate
 - Right-of-way - easements



Estimated useful life*

- ◆ **Question:** What needs to be considered when estimating useful life? [7.14.1]
- ◆ **Answer:** Condition, use, construction type, maintenance policy, demand (in light of experience and plans)
 - For intangibles, also consider any legal, regulatory, or contractual provisions that may limit the length of the asset's useful life



Conduit debt

- ◆ **Question:** How should debt having the typical characteristics of conduit debt be treated if issued by a component unit for the benefit of the primary government? [7.22.18]
- ◆ **Answer:** Definition of *conduit debt* intended to *exclude* intra-entity transactions



Enabling legislation*

- ◆ **Question:** How should the disclosure of net assets restricted by enabling legislation be made? [7.24.16]
- ◆ **Answer:** *May* disclose by major categories and by activity
 - No disclosure required if not applicable



Asset disposals*

- ◆ **Question:** How should gains or losses on the disposal of assets be reported? [7.38.1]
- ◆ **Answer:** Previous guidance = general government/general revenue/adjustment to depreciation expense
 - Question eliminated entirely



Note disclosure

GASB Statement No. 38



Lease disclosure

- ◆ **Question:** Should the disclosure of future minimum lease payments be based upon scheduled payments or lease expense for noncancelable operating leases with scheduled rent increases? [Z.38.1]
- ◆ **Answer:** Disclosure should reflect cash payments set by lease



Impairments and insurance

GASB Statement No. 42



FEMA payments*

- ◆ **Question:** Should FEMA payments be netted like insurance recoveries? [Z.42.4]
- ◆ **Answer:** Netting is not appropriate
 - Nonexchange transactions
 - ◆ Program revenue (government-wide)
 - ◆ Revenue (governmental funds)
 - ◆ Nonoperating revenue (proprietary funds)



Restoration costs

- ◆ **Question:** Should the amount of an impairment be recalculated if restoration costs ultimately prove significantly higher than estimated? [Z.42.13]
- ◆ **Answer:** No. The amount of the impairment would remain unchanged



OPEB

GASB Statement No. 43 and
GASB Statement No. 45



OPEB Trusts

- ◆ **Question:** Does an employer have to establish an OPEB trust? [8.4.2]
- ◆ **Answer:** No. The establishment of a trust is a policy decision



Benefits of OPEB Trust

- ◆ **Question:** What are the benefits of an OPEB trust? [8.4.3]
- ◆ **Answer:** Three positive effects:
 - Effect on discount rate
 - Effect on unfunded actuarial accrued liability and the annual required contribution
 - Effect on employer contributions



Cash payment upon retirement*

- ◆ **Question:** How should one or more cash payments upon retirement be treated? [8.6.4]
- ◆ **Answer:** Decision tree:
 - Compensation or incentive?
 - ◆ Postemployment v. termination benefit
 - Limitation on use?
 - ◆ If not = retirement income = pension



Option between cash payment and OPEB*

- ◆ **Question:** How should an employer treat an offer that allows an employee to choose either cash or OPEB? [8.6.5; 8.6.8]
- ◆ **Answer:** Previous guidance appeared inconsistent.
 - Remain silent
 - ◆ Two options (all pension v. allocation between pension and OPEB)



Agent plans: actuarial assumptions and methods

- ◆ **Question:** Must all participating employers use the same methods and assumptions? [8.18.5]
- ◆ **Answer:** No. However, adequate disclosure is needed in plan financial statements.



OPEB funded by excess earnings on pension plan*

- ◆ **Question:** Should OPEB funded from “excess earnings” be treated by the administering pension plan as a separate OPEB plan? [8.71.5]
- ◆ **Answer:** Yes
 - Answer expanded to remove assumption that the circumstances necessarily qualify as an OPEB trust



Pension plan reserve accounts for OPEB

- ◆ **Question:** Do pension plan reserve accounts for OPEB automatically qualify as a trust? [8.71.6]
- ◆ **Answer:** No. The normal criteria apply



Combined OPEB and active employee benefits*

- ◆ **Question:** Would a plan that administered both OPEB and active employee healthcare qualify as an OPEB trust? [8.72.1]
- ◆ **Answer:** Yes, if the resources for OPEB meet the criteria for being held in trust from both an outside and an inside perspective



Pledges

GASB Statement No. 48



Guidance on pledged revenues

- ◆ **Question:** Does the guidance on liabilities to transferees extend to debt instruments supported by pledged revenues? [Z.48.7-8]
- ◆ **Answer:** No. Debt supported by pledged revenues is treated no differently than other debt



Revenues not yet in existence

- ◆ **Question:** Does the pledge of the future revenue from a source not yet in existence fall within the scope of GASB Statement No. 48? [Z.48.9]
- ◆ **Answer:** Yes, unless the source of revenue will be created by the transferee (footnote 1 of GASB 48)



Disclosure

- ◆ **Question:** Does the disclosure exemption for the stand-alone reports of legally separate entities with a single major revenue source encompass component unit reports? [Z.48.10]
- ◆ **Answer:** No. The exemption is limited to units that are not part of a larger financial reporting entity



Disclosure (cont.)

- ◆ **Question:** Would the pledged revenue disclosure apply to rental revenues paid by the primary government that secure bonds of a blended component unit? [Z.48.11-12]
- ◆ **Answer:** It depends on the report:
 - Separate report of component unit – yes
 - Reporting entity - no



Collections of pledged receivables

- ◆ **Question:** How should \$100,000 received from a third party in return for all future cash flows from a group of tax liens (no residual interest and carrying value = \$110,000) be reported if the agreement does *not* qualify as a sale? [Z.48.13]



Collections of pledged receivables (cont.)

◆ Answer:

- Reduce carrying value of receivables to \$100,000 estimated to be collectible
- Report liability for \$100,000 upon receipt of proceeds
 - ◆ Reduce liability by subsequent collections
- Collections in excess of \$100,000
 - ◆ Report revenue
 - ◆ Report expenditures/expense + obligation



Pollution remediation

GASB Statement No. 49



Remediation v. prevention/control

- ◆ **Question:** How should infrastructure maintenance costs related to the containment or removal of hazardous materials be treated? [Z.49.13]
- ◆ **Answer:** Remediation costs (not prevention or control costs)
 - Incremental remediation costs of other projects fall within scope of GASB 49



Intangible Assets

GASB Statement No. 51



Purchased software

- ◆ **Question:** Should software that is *not* internally generated be treated as an intangible asset? [Z.51.1]
- ◆ **Answer:** Yes



Website

- ◆ **Question:** Should a government's web site be considered software? [Z.51.2]
- ◆ **Answer:** Yes



Purchased revenues

- ◆ **Question:** Is the asset that results from the purchase of future revenues from outside the reporting entity an intangible asset? [Z.51.3]
- ◆ **Answer:** No. Financial assets are expressly excluded from the definition of *intangible assets*



Income-generating copyright

- ◆ **Question:** Does a copyright used to generate royalty income fall within the scope of GASB 51? [Z.51.4]
- ◆ **Answer:** GASB 51 excludes items acquired or created primarily for the purpose of directly obtaining income or profit



Water rights

- ◆ **Question:** Are water rights used in the operations of a water utility outside the scope of GASB 51 on the grounds that they were acquired or created primarily for the purpose of directly obtaining income or profit? [Z.51.5]
- ◆ **Answer:** No. Water rights used in operations generate income or profit only *indirectly*



Multi-use assets

- ◆ **Question:** How should an asset be treated if it is to be used both in operations and for directly obtaining income or profit? [Z.51.6]
- ◆ **Answer:** Depends on *primary* purpose:
 - If operations = GASB 51
 - ◆ May consider the amount of revenue expected in comparison to the expected level of service capacity
 - If income or profit = not GASB 51



Items for resale

- ◆ **Question:** Do intangible assets acquired for resale fall within the scope of GASB 51? [Z.51.7]
- ◆ **Answer:** No. The scope of GASB 51 excludes assets acquired or created primarily for the purpose of obtaining income or profit.



Costs incurred before criteria met

- ◆ **Question:** Should costs incurred prior to meeting the criteria for an internally developed intangible asset later be capitalized? [Z.51.8]
- ◆ **Answer:** No. Only outlays incurred subsequent to meeting the recognition criteria should be capitalized



Applying criteria for internally generated items

- ◆ **Question:** For internally generated items, what does it mean to determine:
 - The *specific objective* of the project and
 - The *nature of the expected service capacity* upon completion? [Z.51.9]
- ◆ **Answer:**
 - *Specific objective* = purpose or function
 - *Nature of service capacity expected* = broad *qualitative* level



Evidence of intent and ability

- ◆ **Question:** How can the current intention, ability, and presence of effort to complete or continue development of an internally generated intangible be demonstrated? [Z.51.10]
- ◆ **Answer:** Examples include:
 - Budgetary commitments for funding the project



Evidence of intent and ability (cont.)

- Reference to the project in strategic planning documents
- Commitments with external parties to assist in the creation of the intangible asset
- Internal assignments or the hiring of specific personnel to work on the project
- Efforts made to secure the government's legal rights to the results of the project



Interest capitalization

- ◆ **Question:** Does interest capitalization apply to internally generated intangibles? [Z.51.11]
- ◆ **Answer:** Yes. Interest capitalization requirements apply to assets that are constructed *or otherwise produced* for a government's own use



Multiple modules

- ◆ **Question:** When a software system will have multiple modules, should the development stages be applied to the system as a whole or to the individual modules? [Z.51.12]
- ◆ **Answer:** Generally, the guidance should be applied to each individual module rather than to the system as a whole



Preliminary project stage

- ◆ **Question:** What are examples of tasks associated with the preliminary project stage? [Z.51.13]
- ◆ **Answer:** Common examples include:
 - Making strategic decisions to allocate resources between alternative projects
 - Determining the performance requirements for the project (e.g., a user needs analysis)



Preliminary project stage (cont.)

- Determining the systems requirements for the project and that the technology needed to achieve performance requirements exists
- Exploring alternative means of achieving the specified performance
- Selecting a vendor if commercially available software is to be acquired
- Selecting a consultant to assist in the development or installation of the software.



Data conversion costs

- ◆ **Question:** What are some examples of data conversion costs and when do they qualify for capitalization? [Z.51.14]
- ◆ **Answer:** Capitalize only if necessary to operation (e.g., payroll). Examples of data conversion costs include:
 - Purging or cleansing of existing data
 - Conversion of data from the legacy system
 - Reconciliation of the data



Training for development

- ◆ **Question:** Can training for employees involved with developing internally generated software be considered an activity of the application development stage? [Z.51.15]
- ◆ **Answer:** No. While the skills obtained may facilitate the development of the computer software, the training itself does not



Licensing agreement

- ◆ **Question:** How should elements of a licensing agreement be treated? [Z.51.16]
- ◆ **Answer:** Treat each separately:
 - Use of the software
 - ◆ Part of application development stage
 - Training for users of the software
 - ◆ Post-implementation/operation stage
 - Routine systems maintenance
 - ◆ Post-implementation/operation stage



Process reengineering

- ◆ **Question:** How should process reengineering be treated? [Z.51.17]
- ◆ **Answer:** Not part of the process to develop the computer software – expense as incurred
 - Reorganization or redeployment of current resources rather than the creation of a new resource



Modification of existing software

- ◆ **Question:** How should outlays for the internal modification of an existing system to be able to interface with a new system be reported? [Z.51.18]
- ◆ **Answer:** Capitalize if increase in the functionality or efficiency of the existing software or an extension of its estimated useful life



Measuring assets intended to generate income or profit

- ◆ **Question:** How should an intangible acquired or created primarily for the purpose of obtaining income or profit be measured? [Z.51.19]
- ◆ **Answer:** Follow authoritative guidance for investments.



Legal defense

- ◆ **Question:** Should outlays incurred in the successful defense of the legal rights embodied within an intangible asset be capitalized? [Z.51.20]
- ◆ **Answer:**
 - Initial outlay to register would be capitalized
 - Does not qualify as an improvement



Installment contract

- ◆ **Question:** How should a government account for a multi-year licensing agreement for commercially available software? [Z.51.21]
- ◆ **Answer:** Licensed software is an intangible asset (report in amount of total annual payments)
 - Lease accounting specifically does *not* apply to licensing agreements



Data conversion and training for software not internally generated

- ◆ **Question:** How should data conversion and training costs be accounted for when associated with software that is *not* internally generated? [Z.51.22]
- ◆ **Answer:** Two possibilities:
 - Capitalize data conversion costs only if necessary to make the software operational
 - User training should be expensed as incurred.



Maintenance contract

- ◆ **Question:** How should a government account for a maintenance contract that includes minor upgrades? [Z.51.23]
- ◆ **Answer:** Capitalize only if improvement
 - Conceptually, cost of maintenance contract should be allocated accordingly
 - ◆ A government may choose to establish a policy to treat unspecified upgrades as maintenance



Indefinite useful life

- ◆ **Question:** When should an intangible asset be considered to have an indefinite useful life? [Z.51.24]
- ◆ **Answer:** When there are no legal, contractual, regulatory, technological, or other factors that limit its useful life
 - Not solely because the precise length of its useful life is unknown



Voluntary amortization

- ◆ **Question:** May a government choose to amortize an intangible asset with an indefinite useful life? [Z.51.25]
- ◆ **Answer:** No



Move to amortization

- ◆ **Question:** Should a government begin to amortize if useful life no longer appears to be indefinite? [Z.51.26]
- ◆ **Answer:** Yes
 - Test for impairment (i.e., change in duration of use)
 - Amortize carrying value over the remaining useful life of the asset as a change in accounting estimate



Impairments

- ◆ **Question:** How should the impairment of an intangible asset be determined? [Z.51.27]
- ◆ **Answer:** Just as for other capital assets



Indicators of impairment

- ◆ **Question:** What are some examples of circumstances in which an intangible asset might be impaired? [Z.51.28]
- ◆ **Answer:** Examples include:
 - A change in the manner or duration of use of an associated tangible asset
 - Changes in the terms or status of the contract from which the asset is created



Indicators of impairment (cont.)

- A change from an indefinite useful life to a finite useful life
- Evidence of obsolescence
- Enactment or approval of laws or regulations or other changes in environmental factors
- Stoppage in the development process



Major Class

- ◆ **Question:** Should all intangible assets be included in a single major class of capital assets [Z.51.29]
- ◆ **Answer:** Depends on nature and usage
 - Multiple types of intangible assets that have a similar nature and usage could be combined
 - A single type of intangible asset may be considered a major class



Land use rights

- ◆ **Question:** Should land use rights be reported separately from land once GASB 51 is implemented? [Z.51.30]
- ◆ **Answer:** Only if acquired separately



Partial retroactive reporting

- ◆ **Question:** Can a government limit its voluntary retroactive reporting to just those items for which the necessary information can be obtained? [Z.51.31-32]
- ◆ **Answer:** Yes. Appropriate disclosure is needed in the summary of significant accounting policies.



Retroactive reporting requirements

- ◆ **Question:** What is the general rule on retroactive reporting for intangible assets? [Z.51.33]
- ◆ **Answer:** Depends on size per GASB 34
 - Phase 1 or phase 2 governments
 - ◆ Retroactive reporting mandatory
 - ◆ Estimated historical cost may be used for assets acquired in years ending after 6/30/80
 - Phase 3 governments
 - ◆ Retroactive reporting encouraged



Retroactive amortization

- ◆ **Question:** What are the requirements for the retroactive application of amortization under GASB 51? [Z.51.34]
- ◆ **Answer:** Depends on circumstances
 - If indefinite useful life at transition
 - ◆ Restate (i.e., remove accumulated amortization)
 - If finite useful life at transition
 - ◆ Do not restate



Modifications of uncapitalized software

- ◆ **Question:** If a government does not retroactively report a computer software system at transition, would GASB 51 apply to subsequent outlays associated with modifications [Z.51.35]
- ◆ **Answer:** GASB 51 should be applied to modifications of computer software regardless of whether the original software being modified has been reported as an asset



Question 1

How should an easement to use the land underlying a highway be reported?

- A. As an integral part of the highway (like the various “bundled” rights commonly associated with land)
- B. As a separate asset at estimated fair resale value
- C. As a separate asset at estimated acquisition cost
- D. As a separate asset at the estimated cost of the land
- E. (C) or (D)



Question 2

How should FEMA payments be treated?

- A. Reported as revenue
- B. Netted against related losses
- C. Reported as a *special item*
- D. Either (A) or (B)



Question 3

Which of the following would automatically improve if resources were placed in an OPEB trust rather than held in some other manner?

- A. Discount rate
- B. Unfunded actuarial accrued liability
- C. Annual required contribution
- D. All of the above
- E. Both (B) and (C)



Question 4

How should infrastructure maintenance costs related to the containment or removal of hazardous materials be treated?

- A. As an integral part of infrastructure maintenance
- B. As a pollution remediation expense
- C. As a pollution remediation asset
- D. Either (B) or (C)



Question 5

The rules governing interest capitalization apply to intangible capital assets?

True False



Question 6

Which of the following statements is true regarding the capitalization of data conversion costs?

- A. Never capitalize
- B. Always capitalize
- C. Capitalize for payroll
- D. Capitalize for purchasing
- E. Both (C) and (D)



Question 7

An intangible capital asset is presumed to have an indefinite useful life.

True False



Question 8

Which of the following is true regarding land use rights?

- A. Always report as a separate asset
- B. Never report as a separate asset
- C. Report separately if acquired separately



Question 9

Employees have the option upon retirement to receive a lump sum payment or healthcare benefits. How should this benefit be classified?

- A. Pension benefit
- B. Pension and OPEB benefits
- C. OPEB benefits
- D. Either (A) or (B)



Question 10

Which of the following statements is true regarding OPEB reserves held by pension plans that administer postemployment healthcare?

- A. Always qualify as an OPEB trust
- B. Never qualify as an OPEB trust
- C. Potentially qualify as an OPEB trust



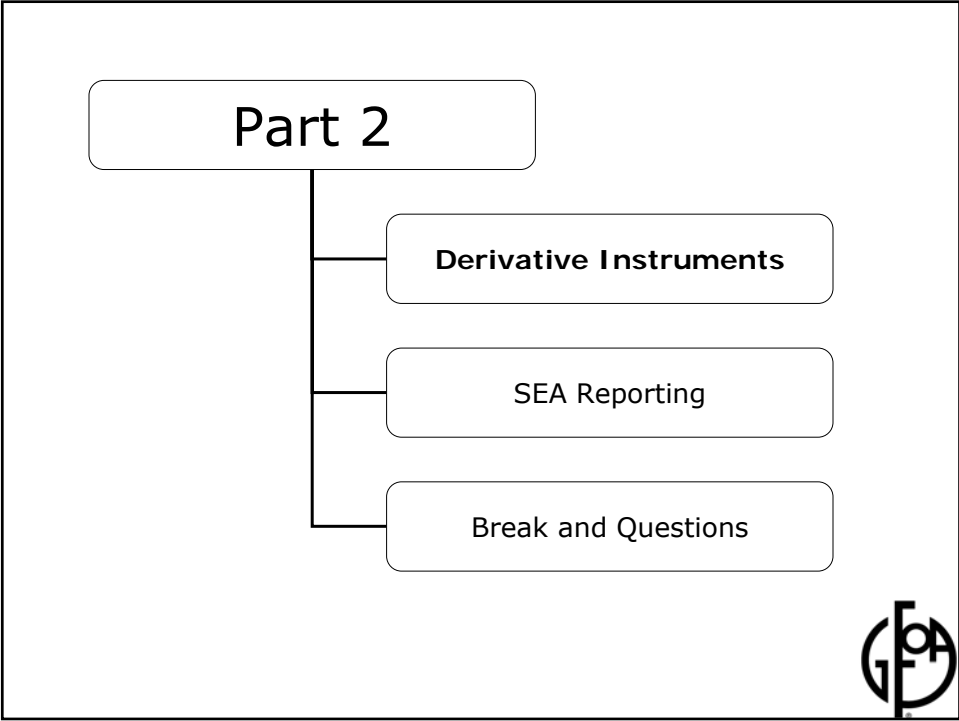
Part 1

Fund Balance/Governmental
Fund Type Definitions

New Practice Guidance from
GASB

Break and Questions





Derivative Instruments

GASB Statement No. 53



Nature and purpose

- ◆ Derivative = An arrangement to receive or make payments based on market prices *without actually entering into the related financial or commodity transactions.*
- ◆ Function:
 - Investment
 - Tool to offset volatility
 - Tool to lower the cost of borrowing



Example

- ◆ Interest rate swap
 - Outstanding debt of \$4 million
 - ◆ Variable rate (currently 3%)
 - Objective – fixed rate at 5%
 - Contract
 - ◆ Pay amount *equivalent* to interest at 5%
 - ◆ Receive amount *equivalent* to interest at variable rate



Example (cont.)

Actual debt payment:

(i.e., \$4 Million variable 3%) \$120,000

Contractual payments/receipts:

Pay interest at 5% = \$ 200,000

Receive interest at 3% = (120,000)

Net contractual payment + 80,000

Synthetic payment: \$200,000

Synthetic rate: 5%

Function = Tool to offset volatility



Example (cont.)

◆ Why a derivative?

- "An arrangement to receive or make payments based on market prices" ...
 - ◆ Contractual payment (e.g., \$200,000)
 - ◆ Contractual *receipt based on market* (e.g., \$120,000)
- "...without actually entering into the related financial or commodity transactions."
 - ◆ Payments are only *equivalent* to payments on debt (no debt issued or redeemed)



Common derivatives

- ◆ Interest-rate swaps
- ◆ Basis swaps
- ◆ “Swaptions”
- ◆ Commodities contracts



Essential characteristics

1. Settlement factors
 - Reference rate
 - Notional amount/payment provision
2. Leverage
3. Net settlement



Essential characteristics (cont.)

1. Settlement factors

- Reference rate
 - ◆ Objectively verifiable
 - Specific price/price index
 - Specific rate/rate index
 - Occurrence/nonoccurrence of event
- Notional amount
 - ◆ Amount to which reference rate applied
- Payment provision
 - ◆ Amount if reference rate behaves in a particular way



Essential characteristics (cont.)

2. Leverage

- Economic effect achieved at only a fraction of the investment of resources normally necessary

3. Net settlement

- Can be settled for an amount substantially less than the notional amount



Items excluded from scope

- ◆ Normal purchase and sales contracts
- ◆ Insurance contracts
- ◆ Financial guarantee contract contingent upon default
- ◆ Certain contracts that are not exchange traded
- ◆ Loan commitments



Basic approach

- ◆ **Economic resources measurement focus/accrual basis of accounting**
 - Report at fair value (FV)
 - Report change in FV (Δ FV) each period
 - Defer recognition of Δ FV derivative instruments involved in effective hedges
- ◆ **Exception**
 - Fully benefit-responsive synthetic guaranteed investment contracts



Hedging



Nature and purpose

- ◆ Nature
 - Associate two items for which a change in one will *mirror* a change in the other
- ◆ Purpose
 - Substantially offset changes in cash flows or FV
 - ◆ Change for *hedging* derivative offsets
 - ◆ Change for associated *hedged* item



Illustration

◆ Assumptions

- FV asset = \$100
- Option to sell at \$100
- Inherent value of option:
 - ◆ Sell price - FV asset = FV option

◆ Initial inherent value of option

- \$100 sell price - \$100 FV asset = \$0 FV option



Illustration (cont.)

◆ Assume FV hedged item later at \$98

- \$100 sell price - \$98 FV asset = \$2 FV option

Δ FV of hedged asset	(\$2)
Δ FV of hedging derivative	<u>2</u>
Net economic effect	\$0



Accounting challenge

- ◆ A hedging derivative instrument is *always* reported at FV
- ◆ What if the associated hedged item is *not* reported at FV?



Debt illustration

- ◆ Assumptions
 - FV debt = \$100
 - Option to repurchase debt for \$100
 - Inherent value of option:
 - ◆ FV debt - repurchase price = FV option
- ◆ Initial inherent value of option
 - \$100 FV debt - \$100 repurchase price = \$0 FV option



Illustration (cont.)

- ◆ Assume Δ FV of hedged debt from \$100 to \$102
 - \$102 FV hedged debt - \$100 repurchase price = \$2 FV option

Δ FV of hedged debt	(\$2)
Δ FV of hedging derivative	<u>2</u>
Net economic effect	\$0



Financial reporting challenge

- ◆ Debt is *not* reported at FV

Reported Δ of debt	\$0
Reported Δ of option	<u>\$2</u>
Net effect reported	\$2

- ◆ Financial reporting would *not* reflect offset (i.e., purpose of hedge)



Solution – hedge accounting

- ◆ If hedged item is *not* reported at FV
 - Still report hedging derivative at FV but defer recognition of Δ of FV of derivative

	<u>DR</u>	<u>CR</u>
Option	\$2	
Deferred inflow		\$2

- Thus, changes in FV would not affect statement of activities



Prerequisites

- ◆ Association with hedged item
 - Notional amount consistent with the principal amount or quantity of the associated item
 - Same fund
 - Consistent time period
- ◆ Effectiveness



Effectiveness

- ◆ Consistent critical terms
- ◆ Quantitative methods
 - Synthetic instrument method
 - Dollar offset method
 - Regression analysis
 - Other similar methods



Consistent critical terms

- ◆ Compare terms of derivative instrument with terms of hedgeable item to determine that they are the same or essentially similar.
- ◆ Inherently more exacting than the quantitative methods
 - A potential hedge cannot *initially* be dismissed as ineffective based on the application of this method alone



Synthetic instrument

- ◆ Treat derivative instrument and associated hedgeable item as a single instrument and compare actual to intended performance
 - Only used for cash flow hedges in which the hedgeable items are interest bearing and carry a variable rate.
- ◆ Actual results must fall within a range of 90 to 111 percent of intended results.



Example – synthetic instrument

- ◆ Assumptions
 - \$100 million variable rate debt (Index A)
 - ◆ Current rate (Index A) = 1.790314%
 - Will pay 3.806160% fixed rate
 - Will receive variable rate (Index B)
 - ◆ Current rate (Index B) = 1.689314%



Example (cont.)

Contractual payment:

.03806160 x \$100 million \$3,806,160

Contractual receipt:

.01689314 x \$100 million (1,689,314)

Net contractual payment \$2,116,846



Example (cont.)

Net contractual payment: \$2,116,846

Payment to bondholders:

.01790314 x \$100 million 1,790,314

Synthetic payment: \$3,907,160

Synthetic rate/target rate:

$3.907160/3.806160 = 102.65\%$

(Effective range = 90%-111%)



Synthetic instrument

- ◆ Application
 - Just the current period
 - Life-to-date basis
 - Hypothetical prior payments
 - ◆ If only a short time has elapsed since inception and the actual synthetic rate is outside the range
- ◆ Disqualification is not definitive
 - Effectiveness may be demonstrated by some other method



Dollar offset

- ◆ Compare changes in cash flows or changes in FV of the derivative and of the associated item
- ◆ Result of dividing one by the other must fall within a range of 80 percent to 125 percent.



Dollar offset (example)

Assumptions:

Δ FV of derivative	\$120
Δ FV of associated item	(\$100)

$$\$120/\$100 = 120\% (\leq 125\%)$$

$$\$100/\$120 = 83\% (\geq 80\%)$$



Dollar offset (cont.)

- ◆ Changes that are small in absolute terms could have a disproportionate effect
 - Disqualification is not definitive
 - ◆ Effectiveness may be demonstrated by some other method



Regression analysis

- ◆ Parameters
 - The R-squared must be at least .80
 - The F-statistic should demonstrate significance using a 95 percent confidence interval, and
 - The regression coefficient for the slope should fall between -1.25 and -0.80
- ◆ Disqualification is not definitive
 - Effectiveness may be demonstrated by some other method



Termination events

- ◆ Hedge no longer effective
- ◆ Transaction no longer probable
- ◆ Hedged asset/liability sold or retired
- ◆ Hedging instrument terminated
- ◆ Hedged debt defeased
- ◆ Hedged transaction occurs



Treatment upon termination

- ◆ Basic rule
 - Close deferred accounts to *investment income*
- ◆ Exceptions
 - Refunding (net carrying value of old debt)
 - Financial instrument not reexposed to risk (amortize)
 - Commodities transactions (net with cost of commodities)



Note disclosure

- ◆ Derivatives that function as investments
 - GASB Statement No. 40
 - Specialized credit risk disclosures
- ◆ Derivatives used in hedges
 - Disclosures of 2003 Technical Bulletin



Embedded instruments

- ◆ Examples
 - Call option in a bond
 - Cap or floor in a sale or purchase contract
- ◆ Do not treat as hybrid unless:
 - Companion instrument not measured at fair value
 - A separate instrument would qualify
 - Economic characteristics not closely related



Question 1

To qualify as a derivative, an arrangement must substantially reduce the volatility associated with changes in cash flows or fair value.

True False



Question 2

What is the function of a derivative?

- A. To serve as an investment
- B. To offset volatility
- C. To lower the cost of borrowing
- D. Any of the above



Question 3

In a pay fixed/receive variable interest-rate swap, the synthetic payment is the difference between the amount paid and the amount received?

True False



Question 4

Which of the following is an essential characteristic of a derivative?

- A. Reference rate
- B. Notional amount
- C. Payment provision
- D. All of the above



Question 5

In addition to settlement factors, an essential feature of a derivative is

- A. Leverage
- B. Net settlement
- C. Both (A) and (B)
- D. Neither (A) nor (B)



Question 6

Purchase and sales contracts are automatically excluded from the scope of GASB Statement No. 53.

True False



Question 7

If a hedged item is valued at cost, how should the hedging derivative be valued?

- A. Fair value
- B. Cost
- C. Either (A) or (B)



Question 8

How should changes in the reported value of a derivative be reported?

- A. Investment income
- B. Deferred inflow/outflow
- C. Contra-equity
- D. Either (A) or (B)



Question 9

Does the following interest-rate swap qualify as an effective hedge based on the synthetic instrument method?

Variable rate debt \$100 Million (Index A = 2.16%)

Contract terms (\$100 Million notional amount):

Payment fixed (3.25%)	\$3,250,000
Receipt variable (Index B = 2.85%)	<u>(2,850,000)</u>
Net payment	\$ 400,000
Current debt service (Index A = 2.16%)	<u>\$2,160,000</u>
Total payments (i.e., debt service + contract)	\$2,560,000



Question 10

Does the following hedging arrangement qualify as an effective hedge based on the dollar-offset method?

Change in value of hedging instrument	+\$77
Change in value of hedged item	+\$90



Part 2

Derivative Instruments

SEA Reporting

Break and Questions



Service Efforts and Accomplishments Reporting

Amendments to GASB Concepts
Statement No. 2
and
*Suggested Guidelines for Voluntary
Reporting of SEA Performance
Information*



General background

- ◆ Research project
 - Series of reports on indicators
 - GASB Concepts 2 (1994)
 - Staff report on communication (2003)
- ◆ Current agenda project (April 2007)
 - SEA reporting project
 - ◆ Amendments to GASB Concepts 2
 - ◆ Suggested guidelines for voluntary reporting of SEA information



Amendments to GASB Concepts Statement No. 2



GASB Concepts 2 (1994)

- ◆ Concerns
 - “The Board believes that unless SEA reporting is required, necessary information about the results of government services needed to assist financial report users in assessing the performance of governmental entities will be unavailable to most of those users.” (paragraph 93).



GASB Concepts 2 (cont.)

- ◆ Concerns (cont.)
 - “Possible Approaches to Establishing SEA Reporting Standards” (paragraph 77)
 - ◆ “Require SEA reporting ... without specifying the particular SEA measures that should be reported”
 - ◆ “Reporting standards could establish a minimum core set of SEA measures”
 - ◆ “Require reporting of a specific set of SEA measures for [more significant agencies, departments, programs, or services]”



Reason for change

- ◆ The GASB has gradually come to see its role as facilitating and encouraging, rather than mandating, SEA reporting
- ◆ Amendments to GASB Concepts 2
 - Reflect new vision
 - Allay constituent concerns



Specific changes

- ◆ Amend existing language
 - *Standards and statements*
 - *Guidance and pronouncements or other communications*
- ◆ Eliminate discussion on development of reporting standards



Specific changes (cont.)

- ◆ Add new language:
 - It is beyond the scope of the GASB to establish the goals and objectives of state and local government services, to develop specific nonfinancial measures or indicators of service performance, or to set standards for service performance. Selection of goals and objectives, specific nonfinancial measures of service performance, or standards for service performance should be made by those charged with that responsibility.



Suggested Guidelines for Voluntary Reporting of SEA Performance Information

Request for Response
document



Goal

- ◆ Furnish conceptually based guidelines to assist state and local governments that voluntarily choose to report on their SEA



Background

- ◆ Staff research report (2003),
*Reporting Performance Information:
Suggested Criteria for Effective
Communication*
 - 16 suggested criteria
- ◆ Task force advice
 - No new criteria needed
 - Combine criteria
 - Focus on essential elements



Essential components

1. Purpose and scope
2. Major goals and objectives
3. Key measures of SEA performance
4. Discussion and analysis of results
and challenges



Qualitative characteristics

- ◆ Relevance
- ◆ Understandability
- ◆ Comparability
- ◆ Timeliness
- ◆ Consistency
- ◆ Reliability



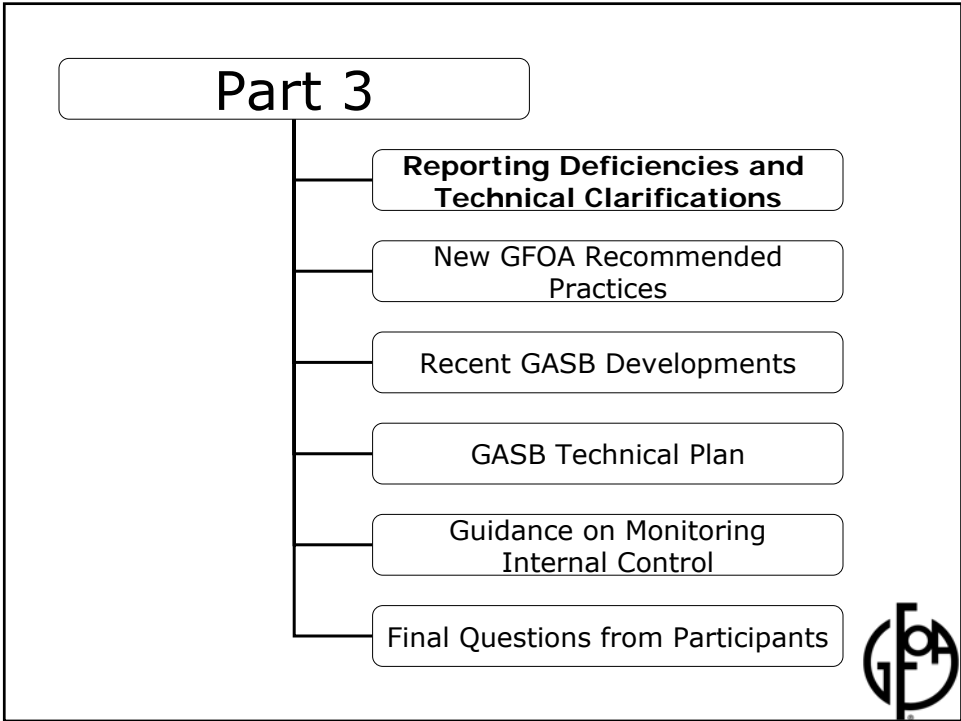
Part 2

Derivative Instruments

SEA Reporting

Break and Questions





Reporting Deficiencies and
Technical Clarifications

Certificate of Achievement
Program



Letter of transmittal

- ◆ Letter dated prior to the date of the independent auditor's report
- ◆ Failure to reference management's discussion and analysis (MD&A)



Independent auditor's report

- ◆ In-relation coverage missing for schedules in financial subsections
- ◆ Coverage does not extend to budgetary comparison *statement*



MD&A

- ◆ Failure to provide analysis for *both* government-wide statements *and* major funds
- ◆ Often revenues discussed, but not expenses/expenditures
- ◆ Economic prognostication



Component units

- ◆ Failure to distinguish blended from discretely presented
- ◆ Combining statements for discretely presented units not visibly recast



GW Statement of net assets

- ◆ Calculation of *net assets invested in capital assets net of related debt*
 - Items improperly included in calculation
 - ◆ Unexpended proceeds of debt
 - ◆ Unamortized issuance costs
 - ◆ Accrued liabilities
 - Improper exclusion of intangible capital assets
- ◆ More detail needed on *restricted net assets*



GW Statement of activities

- ◆ Capital contributions shown as general revenue rather than as program revenue
- ◆ Transfers of capital assets reported as capital grants



Special items

- ◆ Materiality needs to be applied separately to government-wide and fund financial statements
 - Special items reported in the fund financial statements may not qualify as such in the government-wide financial statements



Fund financial statements

- ◆ Failure to report qualifying funds as major
 - Very common mistake
- ◆ Intrafund transfers being reported



Governmental funds

- ◆ Balance sheet
 - Liability reported for compensated absences (beyond what is permitted)
 - Failure to report unreserved fund balance for nonmajor funds by fund type



Governmental funds (cont.)

- ◆ Statement of revenues, expenditures, and changes in fund balances
 - Debt issuance reported net
 - Generic use of other financing sources and uses
 - Reporting collections of loan principal



Proprietary funds

- ◆ Statement of net assets
 - Restricted assets improperly classified as current (beyond current debt service)
 - Separate category reported between current and noncurrent
 - Labels and subtotals missing for classified presentation
 - Entire balance of compensated absences presented as current liability
 - Hybrid presentation of liabilities



Proprietary funds

- ◆ Statement of revenues, expenses, and changes in net assets
 - Items reported as *capital contributions* not consistent with cash flows reporting
 - Reconciliation fails to focus on *changes*
- ◆ Statement of cash flows
 - *Noncapital* used as residual category
 - Noncash capital contributions not included in schedule



Proprietary funds (cont.)

- ◆ Other
 - Necessary reconciliations missing
 - Absence of look-back adjustment



Fiduciary funds

- ◆ Pension and other employee benefit trust funds
 - Separate pensions from other postemployment benefits (OPEB)
 - Insufficient breakdown for investments in sponsor reports
 - Do not use to report assets not held in trust (i.e., *assets held by fiscal agent*)



Notes

- ◆ Insufficient information on component units
- ◆ Failure to provide information on policies for deposits and investments
 - Failure to disclose absence of policy
 - Reporting practice as policy
- ◆ Improper disclosure of interest-rate risk for positions in pools



Notes (cont.)

- ◆ Improperly combining the disclosures for short-term and long-term debt
- ◆ Failure to disclose on-behalf benefits
- ◆ Failure to disclose contributions to individual pension plans separately



Required supplementary information (RSI)

- ◆ Inclusion of budgetary comparisons not mandated by GAAP
- ◆ Improperly placing related disclosures in notes to the financial statements
- ◆ Failure to provide reconciliation between basis of budgeting and GAAP



Combining and individual funds

- ◆ Failure to provide information on individual nonmajor discretely presented component units
- ◆ Failure to provide missing information for discretely presented component units without separately issued report (e.g., cash flows)
- ◆ Inappropriate negative balances



Statistical section

- ◆ Failure to provide two per capita debt calculations
 - Outstanding debt
 - General bonded debt outstanding
- ◆ Miscalculation of debt service as % of noncapital expenditures
 - Include only principal and interest payments



Statistical section (cont.)

- ◆ Failure to provide all required information for major own-source revenue
- ◆ Failure to provide detail by function for most significant fees and charges
- ◆ Failure to explain anomalies
- ◆ Failure to provide information on net bonded debt



Question 1

What is the appropriate date for the letter of transmittal?

- A. The end of the fiscal year
- B. The end of audit field work
- C. The date of the independent auditor's report
- D. The date the report is released
- E. Either (C) or (D)



Question 2

Which of the following should be included in the calculation of *net assets invested in capital assets net of related debt*?

- A. Unexpended proceeds of debt
- B. Accrued liabilities
- C. Intangible assets
- D. Unamortized issuance costs



Question 3

A capital asset used in a function reported in the general fund is moved to an enterprise fund. How would the receipt of the asset be reported 1) in the enterprise fund financial statements and 2) in business-type activities in the government-wide financial statements?

- A. Capital contribution/capital contribution
- B. Transfer/transfer
- C. Transfer/capital contribution
- D. Capital contribution/transfer



Question 4

A general government function takes the unusual step of selling a large tract of land originally acquired for development. The proceeds of the sale are significant, but not the difference between that amount and the carrying value of the land. How should the transaction be classified in 1) the governmental fund statements and 2) the government-wide statements?

- A. Extraordinary item/extraordinary item
- B. Special item/special item
- C. Special item/gain or loss
- D. Other financing source/gain or loss



Question 5

Assume that Department A of the general fund transfers current financial resources as follows:

Department B (general fund)	\$100
Debt service fund	50
Enterprise fund	<u>25</u>
Total transfers out	\$175

What amount would be reported as *transfers out* in 1) the general fund and 2) the government-wide statements?

- A. \$175/\$175
- B. \$75/\$75
- C. \$75/\$25



Question 6

A government issues \$1 Million par value debt at a premium of \$15,000. Underwriters' fees of \$20,000 were withheld from the proceeds. How should the issuance of the debt be reflected in the governmental fund financial statements?

- A.

Cash	\$995,000	
OFS - Debt		\$ 995,000
- B.

Cash	\$995,000	
Expenditures – issuance costs	20,000	
OFS – Debt		\$1,015,000
- C.

Cash	\$995,000	
Expenditures – issuance costs	20,000	
OFS – Debt		\$1,000,000
OFS – Premium		15,000



Question 7

Assume the following about the liability for compensated absences in the general fund:

Amount expected to be paid within 12 months (including \$2 due to separated employees)	\$100
Amount expected to be paid after 12 months	<u>\$500</u>
Total	\$600

What portion of that liability, if any, should be reported 1) in the governmental fund balance sheet and 2) as a current liability in the government-wide statements?

- | | |
|--------------|----------------|
| A. \$2/\$100 | C. \$100/\$100 |
| B. \$2/\$600 | D. \$100/\$600 |



Question 8

A government has a position in a statewide investment pool. For purposes of disclosing interest-rate risk, what maturity should be used?

- A. The average maturity of the pool's investments
- B. The maturity of individual investments in the pool
- C. No interest-rate risk disclosure is required for positions in pools



Question 9

Which of the following accounts cannot report a negative balance?

- A. Reserved fund balance
- B. Designated fund balance
- C. Pooled cash and investments
- D. All of the above

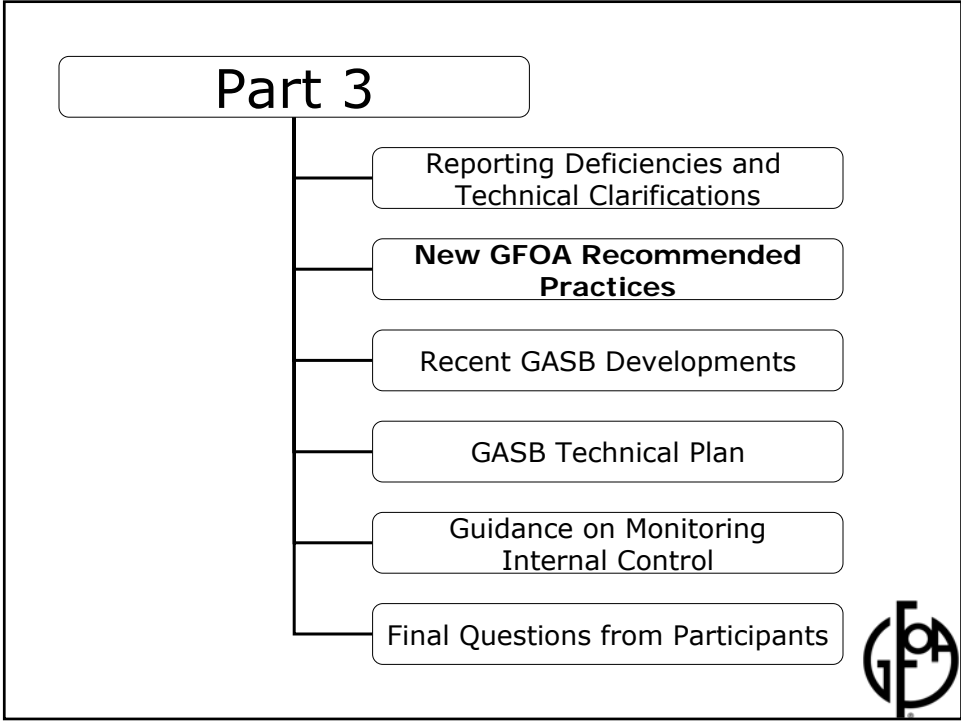


Question 10

Cash flows related to the amount reported as *capital contributions* in the statement of revenues, expenses, and changes in net assets should be classified as *capital and related financing activities* in the statement of cash flows

True False





Improving the Timeliness
of Financial Reports

GFOA Recommended Practice



Background

- ◆ Timeliness essential
 - Balance against reliability
 - ◆ Minor gains in precision cannot justify indefinite delay
 - Balance costs and benefits
- ◆ Minimum objective
 - Legislative deadlines
 - Award programs



Recommendation 1

- ◆ Recording activity throughout the year
 - Transactions processing
 - ◆ At least quarterly
 - Reconciliations
 - Financial analysis of interim management reports
 - Accounting policies and procedures
 - ◆ Items that may need to be estimated
 - Specific steps and assumptions, and whether:
 - ◆ During the year?
 - ◆ As part of the initial year end closing process?
 - ◆ In the adjustment and analysis process immediately prior to final year end closing?



Recommendation 2

- ◆ Closing and financial statement preparation processing
 - Annual closing process
 - ◆ Items related to budgetary expenditures recorded by the end of the period
 - Component units
 - ◆ Early and ongoing communication
 - No substitute for one or more face-to-face meetings
 - Unforeseen circumstances
 - ◆ Better to proceed based upon estimates



Recommendation 3

- ◆ Implementing of new accounting standards
 - Facilitating implementation of new accounting standards
 - ◆ Monitor the issuance of final guidance
 - ◆ Determine implementation date
 - Schedule prior to and during the year of implementation
 - ◆ Attempt to implement by at least the period before implementation is mandated.



Recommendation 4

- ◆ Financial report format and distribution
 - Electronic distribution
 - ◆ Initially distribute report electronically
 - Website
 - e-mail
 - Mail CD-ROM



Recommendation 5

- ◆ Contracting for professional services
 - Audit procurement
 - ◆ The request for proposal (RFP) for the audit should specify a public release date
 - Contracts for professional services other than auditing
 - ◆ RFPs for nonaudit services should specify the public release date of the financial statements and expressly mention that those services need to be completed in time to allow the government to meet deadline



Ensuring Adequate Documentation of
Costs to Support Claims For Disaster
Recovery Assistance

GFOA Recommended Practice



Establish Formal Policies
and Procedures for the
documentation of disaster-
related costs



Policies and procedures

- ◆ Set written policies and procedures on disaster-related reimbursable costs
 - Include in overall disaster recovery plan
 - Review *and test* annually
 - Update at least once every three years
- ◆ Train both financial and nonfinancial staff
- ◆ Train both financial and nonfinancial staff on FEMA requirements and guidelines



Policies and Procedures (cont.)

- ◆ Have finance staff review and approve costs before assignment to emergency account
- ◆ Put an "emergency disaster" clause in contracts that might be needed in the event of a disaster
 - Require vendors to supply the necessary level of detail in their billing to support reimbursement
- ◆ Review bids and contracts in advance for compliance with relevant requirements



Policies and Procedures (cont.)

- ◆ Set in place controls for emergency supplies
- ◆ Obtain approval for and document any provision for changes in compensation levels for salaried staff
- ◆ Seek audit as soon as possible (e.g., separate audit of immediate response costs) to minimize possibility of disallowance because documentation no longer available



Policies and Procedures (cont.)

- ◆ If planning to use nonprofits, consider obligating government by contract to using their services



Ensure Adequate Detail to Support Claims



Detail

- ◆ Establish a supplemental chart of accounts
 - Classify projects based on categories used for reimbursement
 - Track costs, at a minimum, at the project worksheet level
 - For staff hours, specify name, title, dates, times, and rates;



Detail (cont.)

- ◆ Educate program staff on the level of detail on costs required to substantiate claims
- ◆ Collect and maintain appropriate nonfinancial data to support claims
 - “Before and after” photographs of each repair, labeled by location and date
 - Relevant correspondence
 - Precise information on materials used (e.g., number of bricks v. square footage);



Other

- ◆ Track volunteer hours
 - Applicable to local share
- ◆ Track local equipment usage
 - By hours actually used



Part 3

Reporting Deficiencies and
Technical Clarifications

New GFOA Recommended
Practices

Recent GASB Developments

GASB Technical Plan

Guidance on Monitoring
Internal Control

Final Questions from Participants



Recent GASB Developments



Recent minor proposed changes

- ◆ Annual required contribution (ARC) adjustment
 - Proposed technical bulletin (TB)
- ◆ GAAP hierarchy
 - Proposed statement
- ◆ Incorporating relevant guidance from auditing standards
 - Proposed statement



ARC Adjustment

- ◆ ARC is normal measure of cost
 - Adjustment needed if asset/liability reported for prior over/under funding
 - ◆ Estimation technique prescribed in authoritative standards
 - ◆ Proposal to encourage use of real actuarial data if available



GAAP hierarchy

- ◆ Currently set by auditing standards
- ◆ Incorporate in GASB standards
 - Specifically incorporate international standards in “other” category



Guidance in auditing standards

- ◆ Some accounting guidance currently found in auditing standards
 - Related party transactions
 - Subsequent events
 - Going concern considerations
- ◆ Incorporate in GASB standards



GFOA position on GASB

- ◆ GFOA concerns
 - Confusing *accounting* with *accountability*
 - ◆ SEA reporting
 - ◆ Economic condition reporting
 - Supply-driven standard-setting
 - Unnecessary divergence from private-sector practice



GFOA position (cont.)

- ◆ Original position (December 2006)
 - Must join with other groups to reassess the GASB's role
 - Ideal – GASB operating within its proper role
 - Consider transferring the GASB's responsibilities to the FASB



GFOA position (cont.)

- ◆ Current position (February 2008)
 - Movement toward international standards no longer makes the FASB a viable alternative



Part 3

Reporting Deficiencies and
Technical Clarifications

New GFOA Recommended
Practices

Recent GASB Developments

GASB Technical Plan

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Internal Control

Final Questions from Participants



Components

- ◆ Current technical agenda projects
 - Conceptual framework
 - Major projects
 - Practice issues
- ◆ Research projects
- ◆ Potential projects



Current technical agenda

- ◆ Conceptual framework
 - Recognition and measurement attributes



Current technical agenda (cont.)

- ◆ Major projects
 - Derivative instruments
 - Fund Balance Reporting and Governmental Fund Type Definitions
 - Postemployment Benefit Accounting and Financial Reporting



Current technical agenda (cont.)

- ◆ Major projects (cont.)
 - Public/Private Partnerships
 - Reporting Unit Presentations/
Statement 14 Reexamination
 - Service Efforts and Accomplishments Reporting



Current technical agenda (cont.)

- ◆ Practice issues
 - AICPA omnibus
 - ARC adjustment technical bulletin
 - Comprehensive Implementation Guide
 - Derivative instruments implementation guide



Research projects

- ◆ Economic condition reporting
- ◆ Electronic financial reporting
- ◆ Fair value measurements
- ◆ Investment omnibus



Potential projects

- ◆ Conduit debt and related assets
- ◆ Exchange-like revenues
- ◆ Financial performance measurements
- ◆ Financial transactions with characteristics of both loans and grants
- ◆ Government combinations
- ◆ In-kind contributions



Potential projects (cont.)

- ◆ Irrevocable charitable trusts
- ◆ Lease accounting
- ◆ Popular reporting
- ◆ Present value
- ◆ Preservation method



Part 3

Reporting Deficiencies and
Technical Clarifications

New GFOA Recommended
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Recent GASB Developments

GASB Technical Plan

**Guidance on Monitoring
Internal Control**

Final Questions from Participants



Guidance on Monitoring Internal Control Systems

Pending guidance from the
Council of Sponsoring
Organizations-COSO



Background

- ◆ Discussion document proposes expanded guidance on *monitoring* (September 2007)
 - Reflects Statement on Auditing Standards No. 106, *Audit Evidence*



Key points

- ◆ Those responsible must have appropriate skills and authority
- ◆ Monitoring must focus on identification and correction of root cause
- ◆ Controls must be shown effective from the start ("baseline")



Key points (cont.)

- ◆ Controls need to be reconfirmed in periodic separate evaluations
- ◆ Between periodic evaluations
 - Process for identifying changes in what is controlled (i.e., processes, risks) or in the controls themselves
 - Process to manage any changes identified, thereby establishing a new baseline;



Key points (cont.)

- ◆ Support for initial baseline and periodic separate evaluations must come primarily from direct evidence
- ◆ Weaknesses should be reported both to the person responsible for the control's operation and to at least one level higher



Key points (cont.)

- ◆ The governing board or audit committee must monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override



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