

## Another New GASB Statement – Are You Ready?

by Brian A. Ritschel, CPA, Consulting Manager

In February 2009, the Governmental Accounting Standards Board (GASB) issued *Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes how a fund balance is classified on the face of the governmental fund financial statements and refines the definitions for governmental fund types.

**Overview:** The statement's objective is to improve the usefulness of the governmental fund balance information by providing more clearly defined categories to make the nature of the restrictions more transparent. Also, it clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements between entities.

Currently, governmental fund balances are classified as reserved; unreserved, designated; or unreserved, undesignated. GASB Statement 54 replaces those classifications with nonspendable; restricted; committed; assigned; and unassigned.

**Nonspendable fund balance** includes amounts that cannot be spent because they are not spendable in form (i.e., inventories, prepaid items, or long-term notes receivables) or they are legally or contractually required to be maintained intact (i.e., the principal amount of a permanent fund).

**Restricted fund balance** for governmental funds has the same restrictions as defined in GASB Statement 34 and amended by GASB Statement 46 for proprietary funds and government-wide net assets.

**Committed fund balance** should only be used to classify amounts that have been "committed" for a specific purpose by formal action (i.e., legislation, resolution, or ordinance) of the highest level of decision-making authority (i.e., City/Town Council or Board of Directors). Once the action has been taken, the committed funds cannot be used for any other purpose unless the commitment is rescinded by same type of action that previously committed the

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## H&M Joins CPA Firm Association

Heinfeld, Meech & Co., P.C. has been chosen for membership in AGN International, Ltd., a worldwide association of independent CPA, accounting and consulting firms. AGN consists of 197 member firms, including 54 firms in North America. As a member of AGN, our firm can access resources for the best, most current information to assist our clients, while maintaining our firm's independence and local ownership. Our firm was selected for AGN membership due to our leadership position in the government and non-profit industries, our commitment to a superior work environment, and our outstanding growth. **H&M**

## Understanding the Requirements of Time and Effort Reporting

By Marydel Speidell, Audit Manager

Time and effort reporting has been an area where audit findings can occur, particularly in the failure to maintain proper documentation to support time spent on Federal programs. This article provides an overview of these requirements to help assist you with maintaining compliance in this crucial area.

In accordance with the Office of Management and Budget (OMB) Circular A-87,

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funds. The action taken to commit the funds must be taken prior to the end of the fiscal year but the specific amount may be determined in the subsequent period.

**Assigned fund balances** are those amounts that are set aside by the governing body itself or by another body (i.e., budget or finance committee) or by an official who has been delegated the authority to assign those amounts for a specific purpose by the governing body. The assignment must follow the government's intent for the specific purpose of the individual funds. Therefore, all remaining positive fund balances in the special revenue, debt service and capital projects funds must be classified as assigned. The general fund may have fund balance that is assigned for a specific purpose and fund balance that is unassigned as described below.

**Unassigned fund balances** are those amounts in the general fund that have not been classified as nonspendable, restricted, committed, or assigned. Any other governmental funds that have a negative fund balance must be classified as unassigned.

On the face of the financial statements, the above classifications can either be displayed in the aggregate per classification or separately in a manner that distinguishes between the major purposes of each classification. If the financial statements present the aggregate amounts, then the detail must be presented in the notes to the financial statements.

The notes to the financial statements should also disclose the policies and procedures that are used in classifying fund balances. Committed fund balances should identify the government's highest level of decision-making authority and the process that the government must perform in establishing and modifying or rescinding a fund balance commitment. Assigned fund balance should identify the body or official authorized to assign amounts to a specific purpose and the policy established by the governing body that authorization is given. If the government does not have a policy on how

to classify the unrestricted fund balance, then it should consider that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Most governments set aside a certain amount of fund balance for emergencies, revenue shortages or other contingencies. The authority to set aside these amounts usually comes from a statute, ordinance, or resolution. The GASB calls these types of funds "stabilization arrangements." For a government to be able to set aside these types of funds, they need to specifically define when these amounts may be used and specify a situation that cannot be expected to occur routinely. For example, identifying funds to be accessed "in an emergency" does not sufficiently detail the circumstance or condition that must be met for the funds to be considered committed. To commit these funds, the government needs to be more specific in defining an emergency.

The second part of GASB Statement 54 revised the definitions for the governmental fund types.

**General fund** should be used to account for all financial resources not accounted for and reported in another fund.

**Special revenue funds** must be used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The restricted or committed proceeds should be a substantial portion of the revenues in the fund. Once the restricted or committed proceeds are not a substantial portion of the revenues, then the fund should be discontinued and the fund's remaining sources should be reported in the general fund.

**Debt service funds** should be used to account for and report current and future financial resources that are restricted, committed, or assigned to principal and interest payments.

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## Time and Effort Reporting (Cont'd from Page 1)

“Cost Principles for State, Local and Indian Tribal Governments,” time and effort reporting is required to account for the total activity for which an employee is compensated. The purpose of this requirement is to confirm that the percentage of time spent on various activities performed by employees paid from Federal funds accurately depicts the work that has been performed. As a result, this reporting requires *written, after-the-fact documentation* of how employees spent their compensated time on Federal programs.

Before determining time spent on Federal programs, it is important to understand the difference between *payroll distributions* and *effort distributions*. Payroll distributions reflect the allocations of an employee’s salary, while effort distributions reflect the employee’s effort spent on various Federal projects, which is independent of the employee’s salary.

There are two types of certifications that may be used as documentation for employees paid from Federal funds: *semi-annual certifications* or *monthly certifications*.

*Semi-annual certifications* are required when an employee works solely on a **single** Federal program or cost objective. A cost objective is considered to be a function or activity for which costs are incurred. If an employee meets this requirement, a semi-annual certification must be completed to document that the employee worked solely on that program for the period covered by the certification. These certifications must be signed by the employee or a supervisor who has direct knowledge of the employee’s daily activities.

*Monthly certifications* are required when an employee works on **multiple** Federal programs or cost objectives. This should be supported by personnel activity reports that reflect actual work performed, rather than budget estimates. In addition, these certifications must be prepared at least monthly and must be signed by the employee.

Understanding these requirements, as well as the establishment and implementation of

standard procedures, will assist with increased compliance regarding time and effort reporting. Further detailed instructions regarding time and effort requirements under OMB Circular A-87 can be found online at:

[www.whitehouse.gov/omb/circulars/a087/a087-all.html](http://www.whitehouse.gov/omb/circulars/a087/a087-all.html).

**Questions?** Contact Marydel at (602) 277-9449, ext 309 or [marydels@heinfeldmeech.com](mailto:marydels@heinfeldmeech.com). 

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**Capital projects funds** should be used to account for all financial resources restricted, committed, or assigned to capital outlay expenditures, including the acquisition or construction of capital facilities and other capital assets.

This article provides a brief overview of the new fund balance classifications and governmental fund type definitions. The effective date for GASB Statement 54 is for fiscal year 2010-2011 but early implementation is always encouraged.

**Questions?** Contact Brian at (602) 277-9449, ext 327 or [brianr@heinfeldmeech.com](mailto:brianr@heinfeldmeech.com). 

## H&M University Workshops

Links to online registration can be found at [www.heinfeldmeech.com/hmu](http://www.heinfeldmeech.com/hmu). For more help, contact Susan at 520-742-2611, x107 or [hmu@heinfeldmeech.com](mailto:hmu@heinfeldmeech.com).

### 2009 Municipality Conference

**Location:** Mesa, AZ

**Date:** Friday, January 22<sup>nd</sup>

**Cost:** Clients - \$85; Non-clients: \$95

### Capital Assets Accounting

**Tucson area (Vail):** Tues., Feb. 9<sup>th</sup>

**Mesa:** Wed., Feb. 10<sup>th</sup>


**Cost:** Clients - \$75; Non-clients: \$95

## IRS News and Updates

**Updated Reference Guide.** In November 2009, the IRS released an update of Publication 963, *Federal-State Reference Guide*. This publication provides governmental employers with detailed information about Social Security and Medicare coverage, and FICA tax withholding issues. Publication 963 also addresses topics such as determination of worker status, public retirement systems, and Section 218 Agreements, as well as employment tax and fringe benefit issues. It also provides contact information for the IRS, the Social Security Administration, and the National Association of State Social Security Administrators. To download or view Publication 963, visit the IRS website [www.irs.gov/pub/irs-tege/p963\\_1109.pdf](http://www.irs.gov/pub/irs-tege/p963_1109.pdf).

**Employment Tax Audits.** The IRS recently announced plans to randomly select 6,000 employers across the country for employment tax audits in conjunction with its National Research Program (NRP). Not-for-profit businesses will be among those selected for the audits. While the main stated purpose of this set of audits is to collect data to be used for designing future audits, these audits are also expected to result in tax assessments.

The IRS audits will verify proper classification of employee vs. independent contractors and proper classification of fringe benefits; they will also examine expense reimbursements and officer compensation as well as compare employee & independent contractor records to actual tax return filings. The audits will also examine the accuracy and timeliness of employer-prepared tax forms and related deposits. The auditors will typically examine three years of employment tax records. The audits are expected to begin in November 2009 and will be conducted over a three-year period.

**Recommended Changes to Cell Phone Rules.** The IRS recently proposed changes to the rules related to employers providing cell phones as a fringe benefit to employees (excludable from taxable wages). The current rules require that employers require employees to maintain records demonstrating that cell phones were used exclusively for business purposes. The proposed changes, however, would simplify this requirement for the employer (and employee) to substantiate the charges as a business-related expense. The IRS was accepting comments regarding the proposed changes until Sept. 4<sup>th</sup> and they have not yet released final changes to the rules. The proposed changes are available on the IRS website at [www.irs.gov/irb/2009-23\\_IRB/ar07.html](http://www.irs.gov/irb/2009-23_IRB/ar07.html). 

## Bond Disclosure Reminder

Continuing bond disclosure is **required** by the SEC for any government issuing bonds of \$10,000,000 or more after 7/3/94. This disclosure supplies the secondary market for government bonds with information on which to base their purchases. The deadline for disclosures is *usually* February 1. *However governments do **not** need to submit their **audited** financial statements by their deadline.* Instead, they may file the AFR before the deadline as long as the audited financial statements are submitted to the repositories *no later than 30 days after they are received.*

Instead of filing directly with the NRMSIRs and SIDs, you may utilize an Internet-based electronic filing system to upload documents. Beginning July 1, 2009, entities should make their secondary market disclosure filings at the MSRB's Electronic Municipal Market Access website. For details, visit MSRB's website at: <http://emma.msrb.org/AboutDataport.aspx>

## How Much Banking Insurance Do You Have?

By Michael Hoerig, Audit Manager


By now, most people are aware that the Federal Depository Insurance Corporation (FDIC) insures bank accounts up to \$250,000, but did you know that you may have even more insurance protection for your accounts? In addition to the extended FDIC coverage, the Federal government also implemented the Transaction Account Guarantee (TAG) Program.

The TAG program is a component of the Temporary Liquidity Guarantee Program that was adopted by the FDIC in October 2008. It was created to help ensure greater confidence in the U.S. banking system by extending depository insurance to all non-interest bearing accounts in amounts equal to that on deposit. Additionally, the FDIC extended the TAG program reach to also cover Negotiable Order of Withdrawal (NOW) accounts that earn interest at less than .50% and this stipulation includes certain business checking accounts. Together these new legislative changes can result in FDIC-insured monies in excess of \$250,000. For example, if you have \$500,000 in a non-interest bearing account (or NOW account) and \$250,000 in a certificate of deposit, the FDIC will insure the entire \$750,000.

All banking institutions were automatically enrolled during the first 30 days of the program last year, but extended participation is voluntary (at the bank's discretion) and paid by the bank via increased insurance premiums. Thus far, most major banks have elected to

continue their participation in the TAG program. The TAG program was recently extended to expire on June 30, 2010 and the expanded \$250,000 coverage is scheduled to expire on December 31, 2013.


Typically deposit insurance disclosures appear in governmental financial statement notes so be sure to check with your banking institution for the exact limits that apply, and to determine the particular accounts that are covered.

For more information on the TAG program or other banking insurance issues refer to the FDIC website (<http://www.fdic.gov>). 

## H&M Announcements

### **H&M Receives Copper Cactus Award for**

**Best Place to Work:** Our firm was honored in October 2009 with the Wells Fargo Copper Cactus Award for Best Places to Work (31-75 employees). H&M was also the recipient of this award in 2007.

**Staff Achievements:** The following staff recently received their CPA certifications: Eugene Park, Staff Auditor II, Melanie Askew, Staff Auditor II, Travis Zander, Staff Auditor II, and Stephanie Lopez, Staff Auditor. 

### **About Heinfeld, Meech & Co., P.C.**

H&M is an Arizona-based CPA firm with offices in Tucson, Phoenix and Flagstaff and we are recognized leaders in the field of governmental accounting and auditing. We offer this free quarterly newsletter to you as part of our commitment to providing resources and training to governmental personnel.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at [www.heinfeldmeech.com](http://www.heinfeldmeech.com).