



The Government Advisor

The C&P Advisors companies are happy to bring our latest newsletter to you. If you have questions on any of these topics, contact your C&P Advisor or the individuals listed.

December 2010

Government News

GASB Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, represents a substantial change in how fund balance information is reported and disclosed in the financial statements. Effective for periods beginning after June 15, 2010, the Statement's goal is to make the fund balance information more useful through the use of improved classifications and clarification of the existing governmental fund type definitions. Early implementation is encouraged. It is important to note, if any fund reclassifications are made to conform to this Statement, they must be applied retroactively, restating fund balance for all prior periods represented.

A hierarchy of five fund balance classifications has been established based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the funds. This hierarchy improves the reporting of a fund balance by making the categories and classifications more easily understood. The result should provide users more consistent and understandable information about a fund's net resources. Not all governments will have all five components of fund balance.

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IRS Delays Mandatory Reporting of Health Care Coverage Costs on W-2

The health care reform legislation signed by the President this past March included a provision requiring employers to report the amount of the employer-provided health insurance coverage on Form W-2. As enacted, this requirement was to be in effect for tax years beginning after December 31, 2010. The IRS recently issued a relief notice stating the reporting will not be mandatory for 2011, and employers not providing the information on the 2011 W-2s will not be subject to penalty. The 2011 W-2 and instructions will still allow for the disclosure, and employers are encouraged by the IRS to comply on a voluntary basis.

The amount to be reported on Form W-2 is to include any amounts paid by the employer for employer sponsored health insurance coverage. This coverage not only includes traditional health insurance but could also include dental and vision plans paid by the employer. The amount reported is informational only. It is not included as part of taxable compensation. This reporting requirement does not include amounts paid by the employee, amounts paid into an Archer medical savings account, amounts paid into health savings accounts, or salary reductions into flexible spending accounts.

Please feel free to contact us if you need any additional information.

GASB Statement Number 54 (continued)

Presented below is the hierarchy of five possible classifications of fund balance:

Nonspendable Fund Balance – Amounts that are not in a spendable form such as inventories and prepaid amounts. This includes funds that are required to remain intact either legally or contractually (e.g., donations when principal cannot be spent). Also, long-term loans and notes receivable, and property held for resale would be reported here unless the proceeds are restricted, committed, or assigned.

Restricted Fund Balance – Amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation.

Committed Fund Balance – Amounts that can only be used for a specific purpose by a government using its highest level of decision-making authority. A formal action by that authority is required to remove or change the constraints placed on the resources. Any action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

Assigned Fund Balance – These amounts are intended to be used by the government for specific purposes. In governmental funds other than the general fund, the assigned fund balance represents the remaining positive amount that is not nonspendable, restricted, or committed. An amount reported as assigned should not result in a deficit in unassigned fund balance.

Unassigned Fund Balance – This is the residual classification for the general fund and includes amounts not classified as nonspendable, restricted, committed, or assigned. The general fund is the only fund that would report a positive amount in unassigned fund balance. For all other governmental funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. In determining a residual deficit, no amount should be reported as assigned.

What Governments Should Be Doing Now

GASB Statement No. 54 requires commitments of fund balances should occur before year-end. Therefore, the body that is their highest level of decision making authority must act before year-end to establish committed fund balances, including rainy day or stabilization arrangements. Decisions as to which persons have direct or delegated authority to assign fund balance should be decided by year-end.

In addition, governments may need to eliminate existing special revenue funds used to report unrestricted resources from their reports unless they act to commit those resources before year-end. If no action is taken, these resources would be reported in the general fund. Capital projects and debt service funds are also limited in that they can only be used to report restricted, committed, and assigned resources. If any of these funds currently report other than restricted resources, the government will need to take action to commit or assign resources that are to be reported in these funds.

Finally, GASB Statement No. 54 requires governments to use the new governmental fund balance classifications for all periods presented, including opening fund balances.

Personal Financial Fitness

Have you looked at your finances lately?

- Define your goals, set a budget.
- Look at your debts.
- Max out your 401(k)/403(b) or IRA contributions.
- If your tax status has changed, revise your W-2.
- Work on wealth protection.

We all need a reminder every once in a while to give ourselves a financial “check-up.” Consider this yours. Take a closer look at where you’re at, where you’d like to be, and how you’ll get there. Be sure to look at all the factors, and consider speaking with a financial advisor if you don’t already have one.

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End of Year Preparation

Here is a reminder regarding some items to look at before the end of the year to avoid any problems with your year-end audits:

Review monies spent under the American Recovery and Reinvestment Act of 2009 (Recovery Act). Expenditures of Recovery Act funds have to be reported separately and must include the prefix “ARRA” in identifying the name of the federal program on the schedule of expenditures of federal awards. Recovery Act monies received must be reported in the Auditor of State (AOS) Stimulus Tracker in accordance with AOS guidelines.

Due to the significant amount of Recovery Act funds and the inherent risk associated with heightened transparency and accountability requirements, all programs with expenditures of Recovery Act funds are to be considered “higher risk” in accordance with Sections 525(c)(2) and 525(d) of OMB Circular A-133 and has **significant implications for single audits**. For certain governments, we have seen the number of programs required to be tested double from prior years, thereby increasing the related audit hours and fees accordingly.

Review current and possible year-end budget variances to ensure that expenditures, including encumbrances, are within the appropriations at the legal level of control. Modifications may be necessary before the end of the year to avoid any noncompliance citations from your auditors. Remember that the General Fund should be budgeted at the fund, function, and object level.

Review proper accounting and legal compliance of transfers. Fund accounting segregates legally restricted resources. Therefore, transferring cash restricted for one purpose to a fund with a different restricted purpose potentially permits spending the transfer in violation of its restricted purpose. Review transfers for compliance with Ohio Revised Code Sections 5705.14 - .16.

There is still time to **review prior year recommendation comments** from your auditors and determine the cost-benefit on implementation of those items and avoid any repeat comments this year.