



ARRA and GASB Update

Henrico County, Virginia

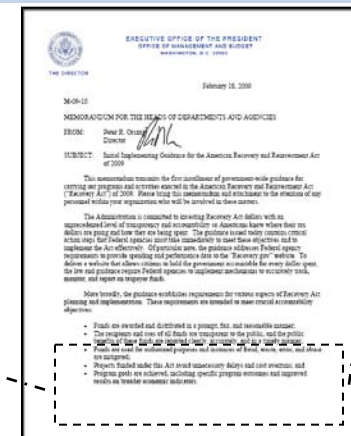
September 14, 2009

KPMG LLP

- **Introductions**
- **Meeting Objectives – ARRA and GASB Update**
- **American Reinvestment and Recovery Act**
 - Recent Developments and Trends
 - Implementation Challenges
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- **GASB Update**
 - GASB 49 – Environmental Liabilities
 - GASB 51 – Intangible Assets

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

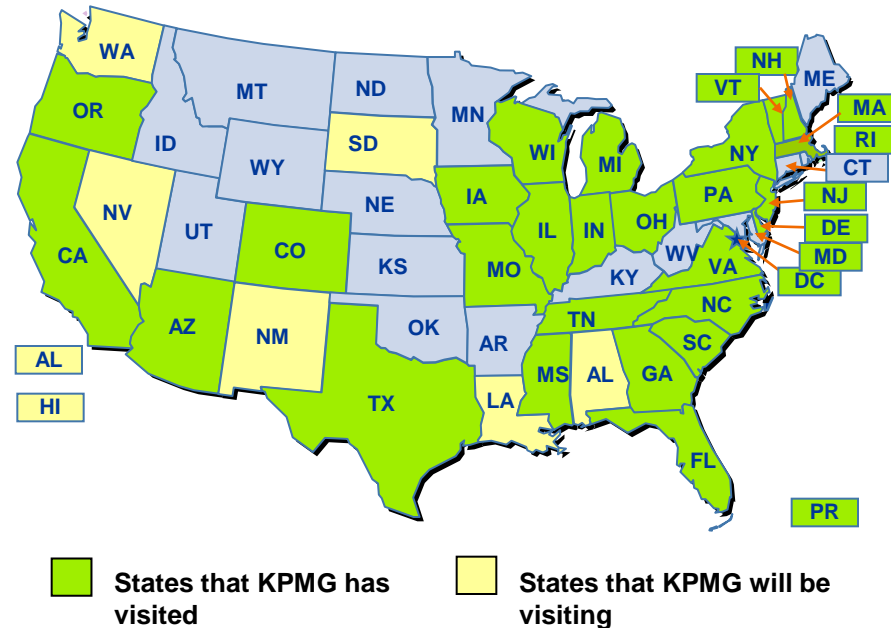
- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes and instances of 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.



OMB MEMO – DTD 2/18/09

Source: KPMG IT Strategy & Performance

- Efforts initiated in December 2008 with professionals taken off-line to support teams
- Includes professionals in KPMG's Washington DC Government Affairs office
- Monitor and distribute analyses of legislative and regulatory developments and implications
- Prepare agency level flash reports on emerging issues
 - Streams for Education and Transportation
 - Provided on a daily basis
- Establishes and maintains a collaboration web site to support teams
- Develops stimulus resources, tools and methodologies
- Shares feedback and insights from client discussions
- Completes on call surveys to support clients



Recent Developments and Trends

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

- 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 Labor¹
- 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).

¹ in accordance with subchapter IV of chapter 31 of title 40, United States Code



- 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.



- 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:
 - Primary recipients will be responsible for reporting only “direct” jobs created or retained and not “indirect” or “induced” jobs.
 - Grant recipients should report on the employment impact of sub-recipients
 - Only compensated employment should be reported
 - Jobs should be expressed as “full-time equivalents” (FTEs): total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient
 - Reasonable average of FTE’s is to be reported, calculated either as an average of FTE’s for each pay period or at a single point in time, if representative of the quarter
 - A brief description of types of jobs created or retained should be provided
- 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**

- 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

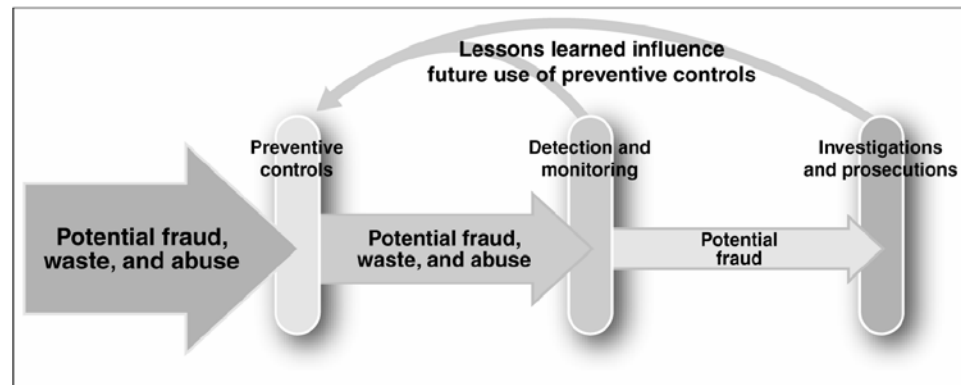
- **Maintenance of Effort**

- 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

- **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

Figure 1: Program Designed to Minimize Fraud, Waste, and Abuse



Source: GAO.

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

- 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

- [New Section 1512 Guidance](#)
- [Recommended Modifications to H.R. 2182](#)

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 and what information will be reported on 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 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)

- **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

- **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**

- **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 (also referred to as the 1512(c)(4) requirements or FFATA Data elements).

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

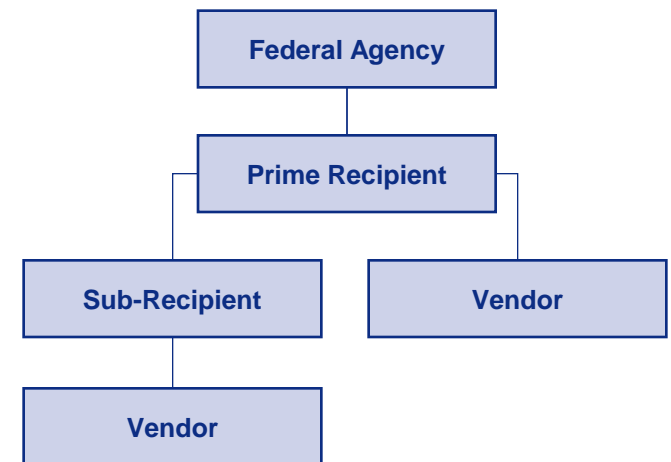
1. D-U-N-S or Name and zip code of Headquarters (HQ)
2. Expenditure amount
3. Expenditure description

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)

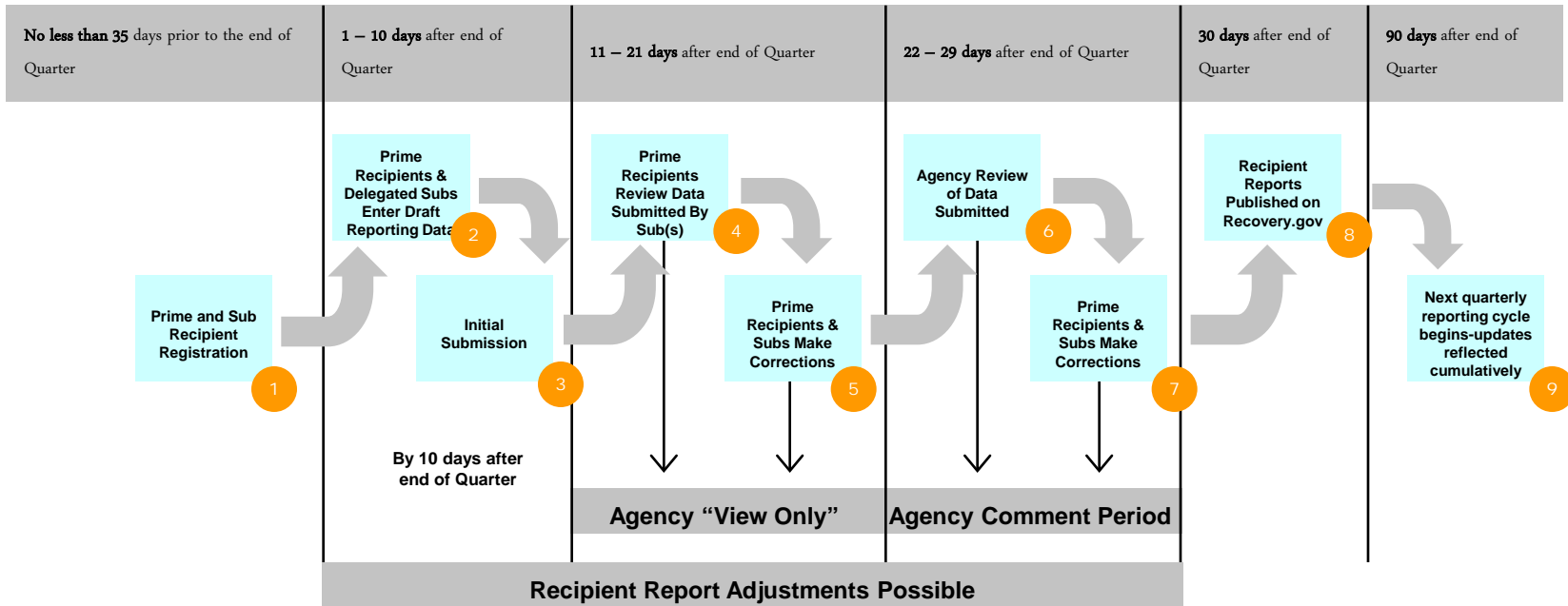
Sub-Recipient Vendor

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



- **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



- **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.

- **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.

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.

- **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.

- **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.

- 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



- **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 6m; 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



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.



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.]



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.

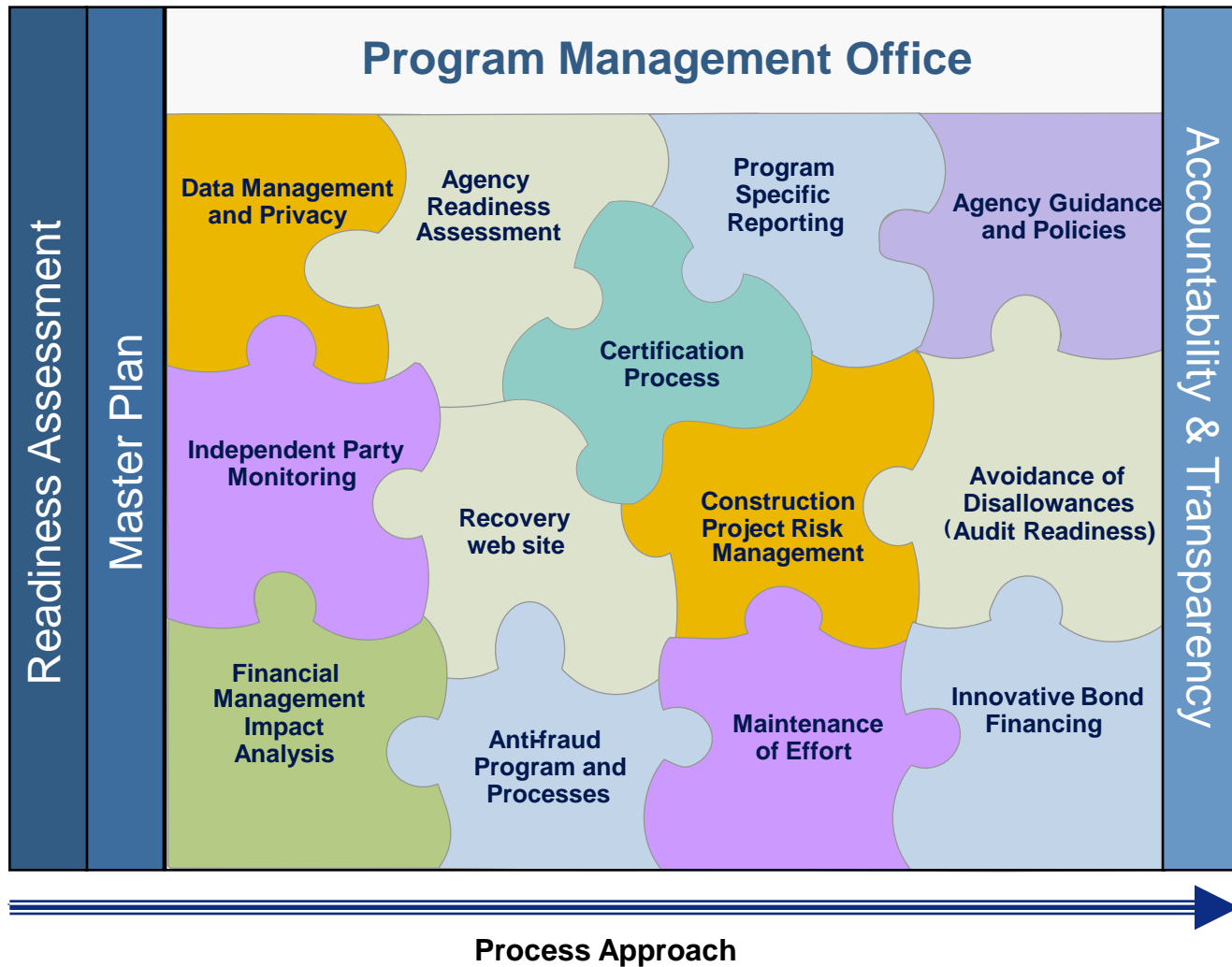


2. Add Section 5 to H.R. 2182 – add the following section to Subtitle A (continued):

- **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)

- ARRA First Dollar Rule and implications on program selection for audit
- Quarterly Reporting to Recovery.gov
- Internal control certification by management – auditor association??????

The PMO Approach



Managing For Success

- 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

- 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 Statement No. 49

- 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

- 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

- **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

- **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

- **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

- 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 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.

- **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

- **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

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

Total Obligation: \$10,000

- **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)

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

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

- **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)

Expected outlays		\$10,000
Amount related to equipment	\$ 2,000	
Postremediation service utility	50%	
Capitalizable outlay	(1,000)	<hr/>
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

- **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

- **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 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

- **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**

- **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**

- **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

- **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

- **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

- 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

- **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

- **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 (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**

- **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**

- **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**

- **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

- **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

- **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)

- 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

- **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)
- **Statement 51 provision differs from SOP 98-1**
 - Notion of ancillary charges for capital assets

- 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

- **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**

- **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

- **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**

- 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

- 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)

- 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 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

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