FOCUS
2009 Fall Conference

GASB Update
& More

Bill Cole, Audit Partner
Cherry, Bekaert & Holland, LLP
Topics for Discussion

- Auditing Standards – effect on auditees
- GASB Update
- UPMIFA – Endowment Funds Management and Reporting
Audit Standards

- SAS 112, now SAS 115
- Government Auditing Standards – restatements of the financial statements
Current SAS 112 Definitions

A control deficiency with more than a remote likelihood that a misstatement:

- Is greater or equal to inconsequential = significant deficiency
- Is material = material weakness
# Effect of the SAS 112 Definitions

<table>
<thead>
<tr>
<th>Old Definitions</th>
<th>New Definitions</th>
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<tbody>
<tr>
<td>Material Weakness</td>
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<td>Reportable Condition</td>
<td>Significant Deficiency</td>
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<td>Management Letter Comment</td>
<td>Other Control Deficiency</td>
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</table>
Significant Deficiencies

- Insufficient controls over, or expertise in, selecting and applying accounting principles in conformity with GAAP
- Insufficient antifraud programs & controls
- Inadequate controls over non-routine and non-systematic transactions
- Inadequate controls over the period-end financial reporting process
Significant Deficiencies, Likely Material Weaknesses

Strong indicators of a material weakness in internal controls:

- Ineffective internal control over financial reporting
- Restatement of previously issued financial statements
- Audit adjustments to current financial statements
- Ineffective internal audit function
Significant Deficiencies, Likely Material Weaknesses

- Ineffective regulatory compliance function
- Identification of fraud by senior management
- Failure by management to correct a previous significant deficiency
- An ineffective control environment with various control deficiencies
Impact of the Standard

- Increase in material weaknesses?
- Increase in significant deficiencies?
- Effect of audit adjustments and prior period adjustments
- Types of findings
- Resolution of findings – auditor vs. client
- Confusion with Board members and management
- Effects on reaccreditation?
Newest Development
AICPA Issues SAS 115

- Communicating Internal Control Related Matters Identified in an Audit
- Conforms to Standards for Attestation Engagements (SSAAE)
- Aligns definitions to PCAOB and International Standards
- Supersedes SAS 112
- Effective for periods ending on or after December 15, 2009. Early implementation is permitted.
SAS 115 Definition
“Control Deficiency”

- **Deficiency** – when the *design* or *operation* of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis
  - Material weakness
  - Significant deficiency
Types of Deficiencies

- **Deficiency in design**
  - Control is missing
  - Not properly designed, so that if control operates as designed, the control objective would not be met

- **Deficiency in operation**
  - Control does not operate as designed
  - Person performing the control does not possess the authority or competence to perform the control effectively
Deficiencies in the Design of Controls

- Inadequate design over preparation of financial statements
- Inadequate design over a significant amount or process
- Inadequate documentation of internal control components
Deficiencies in the Design of Controls

- Insufficient control consciousness
- Absent or inadequate segregation of duties
- Absent or inadequate controls over safeguarding of assets
- Inadequate design of IT general and application controls
- Employees or management who lack qualifications and training to fulfill assigned functions
Deficiencies in the Design of Controls

- Employees or management who lack qualifications and training to fulfill assigned functions
- Inadequate design of monitoring controls to assess design and operating effectiveness of internal controls over time
- Absence of internal process to report internal control deficiencies to management timely
Failures in the Operation Of Internal Control

- Failure in operation of effectively designed controls
- Failure on information and communication I/C component to provide complete and accurate output
- Failure of controls designed to safeguard assets from loss, damage, or misappropriation
Failures in the Operation Of Internal Control

- Failure to perform reconciliations
- Undue bias or lack of objectivity by those responsible for accounting decisions
- Misrepresentation by entity personnel to the auditor
Failures in the Operation Of Internal Control

- Management override of controls
- Failure of an application control caused by a deficiency in the design or operation of an IT general control
- Observed deviation rate that exceeds the auditor’s expected deviation in testing the operating effectiveness of a control
**SAS 115 Definition “Material Weakness”**

- *Material Weakness* – deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.
SAS 115 Definition
“Significant Deficiency”

- **Significant Deficiency** – deficiency, or combination of deficiencies, in internal control that, in the auditor’s professional judgment, is less severe than a material weakness, yet important enough to merit attention by those charged with governance

- Question – Has definition change affected the level of reporting deficiencies?
## Effect of the SAS 115 Definitions

<table>
<thead>
<tr>
<th>Pre-112</th>
<th>SAS 112 &amp; 115</th>
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Severity of a Deficiency...

- Depends on:
  - The magnitude of the potential misstatement; and
  - Whether there is a reasonable possibility that the controls will fail to prevent, or detect and correct a misstatement.

- Does not depend on:
  - Whether a misstatement actually occurred.
Factors that Affect the Magnitude of a Misstatement

- Financial statement amounts or total of transactions exposed to the deficiency
- Volume of activity in the account balance or class of transactions exposed to the deficiency
Risk Factors

- Risk factors affect the possibility that a deficiency will result in a misstatement
  - Nature of accounts, transactions, disclosures, and assertions involved
  - Susceptibility of asset or liability to loss or fraud
  - Susceptibility, complexity, or extent of judgment
  - Interaction of control with other controls
  - Interaction among the deficiencies
  - Possible future consequences
Compensating Controls

- Can limit the severity of a deficiency
- Can mitigate the effects, but does not eliminate the deficiency
- Auditor is not required to consider the effects of compensating controls when communicating significant deficiencies or material weaknesses, but if (s)he does:
  - Evaluate the design of compensating controls
  - Determine whether the compensating controls are implemented
New Yellow Book Requirements

- July 2007 Yellow Book revisions are applicable for periods beginning January 1, 2008 (applicable for fiscal 2009 audits)

- Chapter 5 includes new requirements associated with restatement of previously issued financial statements.
YB Restatement Requirements

- Auditors should advise management to make appropriate disclosures if its likely previously issued financial statements are materially misstated.

- Auditors should evaluate the timeliness and appropriateness of management’s disclosure and management’s actions to determine and correct the misstatements.
YB Restatement Requirements

- Auditors should evaluate whether management disclosed the nature and extent of known or likely misstatements on Web pages where management published the auditors’ report.

- If reissued, disclosure in restated financials includes the line items affected, the affect on MD&A information, impact on financial statements as a whole, specific financial statement affected.
YB Restatement Requirements

- If reissued, disclosure in restated financial statements includes the nature and cause of the misstatement, management’s actions taken after discovering the misstatement.

- If reissued, auditors should perform sufficient procedures to reissue or update the auditors’ report on restated financials, regardless if separately issued or issued on a comparative basis.
YB Restatement Requirements

- If reissued, auditor is to include an explanatory paragraph in the auditors’ report
  - previously issued financials have been restated,
  - previously issued financials cannot be relied on because they were materially misstated, that the previously issued auditors’ report is replaced with the report on restated financials
  - reference to the notes to the financial statements
  - if applicable, a reference to the internal control report containing any internal control comments
### GASB Statement Implementation Schedule

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<th>GASB #</th>
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<th>2009</th>
<th>2010</th>
<th>2011</th>
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<td>Phase II</td>
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<tr>
<td>45</td>
<td>OPEB - employers</td>
<td>Phase I</td>
<td>Phase II</td>
<td>Phase III</td>
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<td>49</td>
<td>Pollution remed.</td>
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<td>52</td>
<td>Land</td>
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<td>Codification of SAS</td>
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</tr>
</tbody>
</table>
Statement 49: Accounting and Financial Reporting for Pollution Remediation Obligations

- Financial statement impact:
  1. Displays previously unreported obligations
  2. Requires reporting obligations when “reasonably estimable” rather than when “judged probable of occurrence” (under SFAS 5)
Types of Remediation Obligations

- Pre-cleanup activities: site assessment, feasibility study, design
- Cleanup activities: neutralization, containment, disposal activities
- Oversight and enforcement costs
- Operation and maintenance of the remedy and monitoring
Recognition Threshold

- One of more components of a pollution remediation obligation are recognizable as a liability when both . .

  - An entity knows or reasonably believes that a site is polluted, and

  - One of five obligating events occurs
Obligating Events Occur When a Government

1. Is compelled to take remediation action because of pollution-caused imminent endangerment

2. Violates a pollution-prevention permit

3. Is named, or evidence indicates govt. will be named, as responsible party or potentially responsible party (PRP) for remediation
Obligating Events Occur When a Government

4. Is named, or evidence indicates government will be named, in lawsuit to remediate
   o Excludes lawsuits having no merit

5. Commences, or legally obligates self to commence remediation
   o Limited to portion legally required to complete
Recognition Guidance

- Requires a component approach:
  - Recognize components of liability as they become reasonably estimable
  - Recognition benchmarks include:
    → Receipt of administrative order
    → Participation in site assessment or investigation
    → Completion of corrective measures feasibility study
    → Issuance of authorization to proceed by regulatory body
    → Remediation design, implementation, operation and monitoring

- Liabilities should be measured:
  → At current value, not present value
  → By utilizing the expected cash flow technique
Capitalization Permitted Only in Limited Circumstances

a. When cleanup prepares property for sale (capitalization limited to resulting fair value)

b. When polluted property is bought and cleaned for government’s use (limited to $ necessary to restore to condition for use)

c. When asset is impaired and cleanup restores lost service utility (limited to $ necessary to restore)

d. Acquired capital assets have future alternative use. For example, land acquired to offset polluted land (limited to future service utility)

For a. & b.—capitalize only if incurred within reasonable period
Disclosures

For recognized liabilities and recoveries

- Nature and source of the pollution remediation obligation—for example, federal or state law
- Liability, if not apparent on statement
- Methods and assumptions
- Potential for change in estimate
- Estimated recoveries reducing the liability
GASBS 52: Land and Other Real Estate Held as Investments by Endowments

- Financial statement impact:
  1. Aligning valuations with purpose of endowment funds.
  2. Promoting comparability among similar entities.
GASBS 51: Accounting and Financial Reporting for Intangible Assets

- Financial statement impact:
  1. Reduces inconsistencies in reporting
  2. Clarifies the classification of intangibles as capital assets
  3. Establishes authoritative guidance for internally generated intangible assets (e.g., computer software)
Definition

For purposes of the Statement 51, intangible assets are assets that possess the following characteristics:

- Lack of physical substance
- A Non-financial nature
- Initial useful life extending beyond a single reporting period

Examples may include:

- Easements (right-of-way, permissive, restrictive)
- Land use rights (water, timber, mineral, air rights)
- Computer software
- Patents, trademarks, copyrights
- Licenses, permits and other rights
Classification

- All intangible assets subject to provisions of the Statement should be classified as capital assets.
- Existing guidance related to capital assets should be applied to intangible assets as appropriate:
  - Recognition
  - Measurement
  - Depreciation (amortization for intangibles)
  - Impairment
  - Presentation
  - Disclosure
- Guidance specific to intangibles that should be applied in addition to, or in lieu of if appropriate, capital asset guidance (e.g. internally generated assets).
Internally Generated

- Outlays incurred related to an internally generated intangible asset that is considered identifiable should be capitalized only upon the occurrence of all of the following:
  - Determination that an objective for the project is to create a specific internally generated intangible asset;
  - Determination of the nature of the service capacity that is expected to be provided by the asset upon its completion;
  - 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.
Recognition

- An intangible asset should only be recognized if it is identifiable.

- That is:
  - The asset is separable from the government; or
  - The asset arises from contractual or other legal rights, regardless of whether rights are separable.
GASBS 53: Derivative Instruments

- Derivative instruments are often complex financial arrangements used by governments to manage risks or to make investments.

- By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transaction.
  - Interest rate swaps
  - Natural gas futures
Derivative Instruments - purpose

- As investments
- As hedges of identified financial risks associated with assets, liabilities or expected transactions
- As a means to lower the cost of borrowing
- Typical example: Governments with variable rate debt may enter into a derivative instrument designed to synthetically fix the debt’s interest rate. Thereby hedging the risk that rising interest rates will negatively affect cash flows.
Examples of Derivatives

- **Interest rate swap**
  - Variable-rate to fixed-rate
  - Fixed-rate to variable-rate
- **Basis swap**
  - Exchange payments based on the changes of two variable rates
- **Swaption**
  - Gives the purchaser of the option the right, but not the obligation, to enter into an interest rate swap
- **Commodity swap**
  - Reduce exposure to a commodity’s price risk
Risks Posed by Derivatives

- **Credit risk** - chance that the firm (the counterparty) will not make good on its promise to pay the government.

- **Interest rate risk** - The longer a derivative lasts, the greater the risk to a government that changes in interest rates could reduce the value of the transaction.

- **Termination risk** - possibility that a derivative may end earlier than expected, thus depriving a government of the protection from risk and potentially requiring it to make a significant termination payment. This could occur if the credit rating of the either the government or the counterparty falls below an agreed upon level.
Risks Posed by Derivatives

- **Basis risk** - In some derivatives, the amount received by the government from the firm is based on one market rate and the amount the government pays to its bondholders is based on a different rate. For example, SIFMA swap index vs. London Interbank Offered Rate (LIBOR).

- **Rollover risk** - when the derivative does not last as long as the associated debt is outstanding. For instance, an interest rate swap might have a 10-year term, but the variable-rate debt matures in 30 years.
Risks Posed by Derivatives

- **Market-access risk** - chance that a government will not be able to issue debt (for example, in a bond refunding) or that doing so will become more expensive.

- **Foreign currency risk** - possibility that changes in foreign exchange rates will adversely affect the value of a derivative if it is denominated in a foreign currency.
Accounting Summary

- Derivatives instruments would be reported on the statement of net assets and measured according to their fair values.

- Fair value changes would be reported on the change statement, provided a derivative instrument is not a hedging derivative instrument.

- If a derivative instrument is a hedging derivative instrument, its fair value changes would be deferred on the statement of net assets until the hedged transaction occurs.

- Governmental funds scoped out of standard!
Recent GASB Pronouncements

- **Statement 54** - Fund Balance Reporting and Governmental Fund Type Definitions
- **Statement 55** - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments
- **Statement 56** - Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards
Recent GASB Pronouncements
(Continued)

- **Cons # 5** - Amendment of Concepts
  Statement # 2 – SEA Reporting

- Derivative Instruments Implementation Guide

- Comprehensive Implementation Guide
What Do You Need To Know About Statement 54?

- Governmental fund type definitions have been clarified
- New Fund balance presentation classifications have been established
- Addresses classification of “stabilization” or “rainy day” amounts
- Effective for periods beginning after June 15, 2010
Governmental Fund Type Definitions

- **Special revenue fund**—used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

- **Capital projects fund**—used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.
Fund Balance Classifications

- New presentation hierarchy based primarily on spending constraints placed upon use of resources versus availability for appropriation

- New fund balance presentation classifications:
  - Non-spendable—Inventory, long-term receivables
  - Restricted—Statement 34/46 definition
  - Committed—Formal action of governing body
  - Assigned—Similar to designations expressing intent
  - Unassigned
Nonspendable Fund Balance

- Not in spendable form, such as
  - Inventory
  - Long-term receivables not expected to be converted to cash in the near term
- Corpus of a permanent fund
Restricted Fund Balance

- Same definition as for net assets in Statement 34 (as amended by Statement 46)—amounts constrained to being used for a specific purpose by
  - External parties
  - Constitutional provisions
  - Enabling legislation
Committed Fund Balance

- Constraint on use imposed by the government itself, using its highest level of decision making authority
- Constraint can be removed or changed only by taking the same highest level action
- Action to constrain resources should occur prior to end of fiscal year, though the exact amount may be determined subsequently
Assigned Fund Balance

- Amounts *intended* to be used for specific purposes
- Intent is expressed by
  - The governing body
  - A body (budget or finance committee) or official authorized by the governing body
- Residual amounts in governmental funds other than the general fund are assigned
Note Disclosures

- Description of authority and actions that lead to committed and assigned fund balance
- Government’s policy regarding order of spending
  - Restricted and unrestricted fund balance
  - Committed, assigned, and unassigned
- Encumbrances, if significant, are disclosed in conjunction with other disclosures of significant commitments
Note Disclosures

- Stabilization arrangements
  - Authority for establishing
  - Requirements for additions
  - Conditions under which amounts may be used

- Minimum fund balance policies
What Do You Need to Know About Statements 55 and 56?

- Accounting and financial reporting guidance currently found in the AICPA’s Statements on Auditing Standards brought into the GASB literature “as is.”

- Statement 55—GAAP Hierarchy
  - First step in the potential reexamination of current multi-level hierarchy
What Do You Need to Know About Statements 55 and 56?

- Statement 56—AICPA Omnibus
  - Related party transactions, subsequent events, and going concern considerations
GASBS Statement 55

- Incorporates GAAP hierarchy guidance found in SAS No. 69, *The Meaning of “Present Fairly in Conformity With Generally Accepted Accounting Principles*, basically “as is.”

- Some modifications made to clarify and update the guidance and reflect the government environment
GASBS Statement 56

- Incorporates guidance found in SASs basically “as is.”
  - Related party transactions
  - Subsequent events
  - Going concern

- Again, modifications were made to clarify and update the guidance and reflect the government environment
Current Agenda Projects

- Postemployment Benefits
- Service Concession Arrangements (formerly known as Public Private Partnerships)
- Chapter 9 Bankruptcies
- Financial Instruments Omnibus
- Certain OPEB Implementation Issues
Current Agenda Projects

- Service Efforts and Accomplishments Reporting
- Statement 14 (Reporting Entity) Reexamination
- Recognition and Measurement Attributes – Concepts Statement
- Codification of FASB Pronouncements (pre-November 1989)
ENDOWMENTS
UMIFA vs. UPMIFA

- In July 2006, the NCCUSL approved UPMIFA
  - A uniform act officially promulgated for consideration by the states, and legislatures are urged to adopt it

- UPMIFA is a revision to the Uniform Management of Institutional Funds Act of 1972

- UPMIFA = UMIFA + “P” (for prudent)
  Uniform Prudent Management of Institutional Funds Act

- To date, 43 states and D.C. have enacted versions of UPMIFA
UMIFA vs. UPMIFA

UPMIFA

• Updates the prudence standard
  • Directs managers to consider general economic conditions, make decisions on portfolio basis, allocate risk and return across portfolio, and consider needs of organization in making distributions and preserving capital
  • Modernizes rules governing spending
    • Removal of historic dollar concept
    • Provides flexibility in coping with market value fluctuations (no longer restricts spending to amounts above HDV)
Scope of UPMIFA

- Applies to all types of NFP – corporations, trusts, unincorporated associations, governmental subdivisions or agencies

- Applies to donor-restricted endowment funds, not to board-designated funds
  - Donor intent, including any specific directions for investment and management of assets, still controls
  - All such funds, whether created before or after passage of the new law
UPMIFA

- Key Change – Elimination of the “historic dollar value” (HDV) rule
  - No longer restricts spending to amounts above HDV (“underwater” does not matter)
  - Emphasizes the perpetuation of the purchasing power of the fund
- Two optional provisions
  - Rebuttal presumption of imprudence for spending > 7%
  - For charity with >$2 million, attorney general notification is required if spending takes total value of all endowments below total HDV
UPMIFA Sections

Section 1 – Title
Section 2 – Definitions
Section 3 – Standard of Conduct
Section 4 – Appropriation or Accumulation
Section 5 – Delegation of Management and Investment
Section 6 – Release or Modification of Restrictions
UPMIFA Sections

Section 7 – Reviewing Compliance
Section 8 – Application to Existing Funds
Section 9 – Electronic Signatures
Section 10 – Uniformity of Application
Section 11 – Effective Date
Section 12 - Repeal
Standard of Conduct
(VA Code 55-268.13)

- Primary consideration to donor intent
- Act in good faith
- Incur only reasonable costs and verify relevant facts
- May pool two or more funds for management/investment
- Make decisions about each asset, as part of overall investment strategy
- Diversify investments, unless better served without
- Dispose of unsuitable assets
- Develop appropriate investment strategy
Appropriation or Accumulation

(VA Code 55-268.14)

Consider the following factors

1. Duration and preservation of the fund
2. Purposes of the institution and the fund
3. General economic conditions
4. Possible effect of inflation or deflation
5. Expected total return
6. Other resources of the institution
7. Investment policy of the institution
Delegation of Management and Investment
(VA Code  55-268.15)

- Subject to limitation of gift or law
- Selecting agent
- Establishing scope and terms
- Reviewing agent’s actions
- Agent has duty to comply with scope/terms
- Institution not liable for agent’s actions
- Agent under jurisdiction of the courts
- Delegate to committees, officers, or employees
Release/Modification of Restrictions  
(VA Code  55-268.16)

- With donor consent, release or modify restrictions
- Court may modify
  - Restriction becomes impracticable or wasteful
  - Impairs management/investment of the fund
  - Modification will further purposes of the fund
  - Notify Attorney General
  - Modification made in accordance with probable intention
Release/Modification of Restrictions
(VA Code 55-268.16)

- Court may modify the purpose of the fund or the restriction on the use consistent with charitable purposes in gift instrument
- After notification to the AG, institution may release or modify if:
  - Total value of asset is less than $50,000;
  - More than 20 years since fund established; &
  - Use of property is consistent with charitable purposes
UPMIFA in Virginia

- VA General Assembly passed HB951 in the 2008 session, which enacts UPMIFA
  - 7% presumption of imprudence not included
- VA law 55-268.16 modifies model legislation:
  - Court may modify purpose of the fund or restriction on the use of the fund. Also, notify the AG and give the AG an opportunity to be heard
  - Total value < $250,000 – without application to the court, but AG consent
  - If fund is < $50,000 and > 20 years old, 60 days after notification to the AG only
FASB Staff Position (FSP)
FAS 117-1

- Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds

- Effective for fiscal years ending after December 15, 2008
FSP FASB 117-1

• Applies to all non-profits and all endowments:
  • Whether donor-restricted or not (i.e. includes quasi-endowed funds)
  • Whether or not state has adopted UPMIFA

• Two implications:
  • Guidance on net asset classifications (only applies to donor-restricted endowments subject to an enacted version of UPMIFA)
  • Required expanded disclosures
FSP FASB 117-1

Net Asset Classification:

- Classify all or a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets, the amount of the fund:
  1. that must be retained permanently in accordance with explicit donor stipulations, or
  2. that, in absence of stipulations, the governing board determines amount that must be retained permanently, if any, under the relevant law

→ Applied to all funds and consistent year to year
Net Asset Classification:

- Classify remaining balance as temporarily restricted (either donor or time restricted) until appropriated for expenditure AND applicable purpose restriction (if any) has been met

- May require reclassifications from unrestricted to temporarily restricted net assets (reported as separate line item on Statement of Activities upon initial adoption)
Enhanced Disclosures

- NFP shall disclose information to enable users to understand:
  - net asset classification,
  - net asset composition,
  - changes in net asset composition,
  - spending policies, and
  - related investment policies about its endowment funds
Minimum Disclosures

- Description of governing board’s interpretation of the law that underlines the net asset classification of donor-restricted endowments
- Organization’s policies for appropriation of endowments for expenditures (spending policies)
- Organization’s endowment investment policies
  - Return objectives and risk parameters
  - How objectives relate to spending policies
  - Strategies for achieving those objectives
Minimum Disclosures

- Composition of endowments by net asset class at end of the year, in total and by type of endowment, showing donor-restricted separate from board-designated
Minimum Disclosures

- Reconciliation of beginning and ending balances, in total and by net asset class (i.e. Changes in Endowment Net Assets for the fiscal year)
  - Investment return (separating investment income from net appreciation/depreciation)
  - Contributions
  - Amounts appropriated for expenditure
  - Reclassifications and other changes
Other Disclosures

• Nature and types of temporary and permanent restrictions (SFAS 117)

• Aggregate amount of deficiencies for all donor-restricted endowment funds for which fair value of assets at end of period is less than the level required by donor stipulations or law (SFAS 124)
Underwater Endowments

- Endowment fund whose value has fallen below its HDV (original value of all contributions to the fund)

- Key Question – When confronted with more than insignificant level of underwater endowments, will we continue to support payments by compensating with funds from other sources?
Underwater Endowments

- HDV is reported as PRNA
- Gains follow the restrictions
- Losses on investments reduce TRNA to the extent net appreciation is carried there. Any remaining losses reduce URNA.
- Gains that restore the FV are credited to URNA
Links to Helpful Resources

- Full text of UMIFA

- Full text of UPMIFA

- Summary of enacted status of UPMIFA

- Full text of FSP117-1, includes disclosure example
What questions do you have?
Contact Information

Bill Cole, Partner
Cherry, Bekaert, & Holland, L.L.P.
Richmond, VA
804-673-5792
bcole@cbh.com