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Accounting Newsletter for Governmental Entities

Give Your Financial Statements a Face Lift

by Jennifer L. Shields, CPA, CGFM, Partner

Now that your new fiscal year budget has been adopted, hopefully you can take a breather to think about what your upcoming audited financial statements will look like and giving them a little face lift. Now I'm not talking about adding pictures on glossy paper with fun fonts, nor am I talking about color coding assets versus liabilities. I'm talking about simply updating the Management's Discussion and Analysis.

The Management's Discussion and Analysis, or MD&A, became a permanent part of your organization's financial statements with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34. This is not the appropriate place to celebrate achievements and accolades since those items belong in the transmittal letter or Popular Annual

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Understanding the Difference Between Subrecipient and Vendor

by Marvin M. Mendieta, CPA, CGFM, Audit Manager

When an organization awards federal monies to another entity, one should consider the relationship with the awarded entity that is created from such an arrangement. Depending on how the arrangement was made, the awarded entity could be classified as either a subrecipient or a vendor, each having a distinct role in the arrangement. So what is the difference between a subrecipient and a vendor?



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Identifying Leadership Traits

by Corey Arvizu, CPA, Managing Partner

What do the following numbers have in common? 23, 10, 14, 7, 9, 22. According to the highest ranked articles from a Google search of the phrase "leadership traits," these are the number of traits or qualities a leader should possess. One article actually had seven categories with over 100 total individual leadership traits identified. Some of the traits such as honesty, communication and integrity were common amongst the various lists. Other traits such as celebration, humor, and endurance were unique to specific lists. The guidance and recommendations for what makes a good leader can certainly be difficult to sort through for those of us looking to develop our own leadership skills.

One of my first attempts at discussing leadership with those I supervised was a presentation called "It's Not Business, It's Personal." Obviously this was an attempt to turn the tables on the common phrase known in the business world with some relationship-based concepts. The goal was to convey my thoughts to those I managed about how to approach their career at Heinfeld, Meech & Co.

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Are Your Assets Impaired?

by Eugene Park, CPA, Audit Manager

Has the use of government property significantly changed? Have governmental buildings been closed? Has a natural disaster changed the use of government property? Are these items included on the capital assets listing?



These are some of the questions you should consider during the annual update of your government's capital assets listing. You should also be asking questions about whether these items can be considered for impairment.

What is impairment? Asset impairment is a sizable, unanticipated decline in the usable capacity of a capital asset due to the normal decline in useful life or to impairing events, such as physical damage, obsolescence, approval of laws or regulations or other changes in environmental factors, or change in manner or duration of use.

How should the impairment of assets be assessed? The determination of impairment of a capital asset is a process of (1) identifying potential impairments and (2) testing for impairment. The events or changes in circumstances affecting a capital asset that may indicate impairment should be known to the government.

What are indicators of impairment?

1. Physical damage such as a building significantly damaged by fire
2. The enactment of laws or regulations or other changes in environmental factors
3. Technological development or evidence of obsolescence such as items rarely used because newer items provide better service
4. A change in the manner or expected duration or use of a capital asset such as the closure of a building prior to the end of its useful life
5. Construction stoppage

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Identifying Leadership Traits

(cont'd from P.1)

The message included a concept called "success fuel" consisting of common leadership terms such risk, empowerment, vision and strategy. The presentation also had a number of what I believed to be very insightful and motivational quotes, including one from Oprah Winfrey. I even had a reference to the 1980s movie "An Officer and a Gentleman," the message of which I'm sure was entirely lost on the younger individuals who were born about the time that the movie was released.

Was the message received by the staff? Sure. They seemed to appreciate the effort I put into preparing the presentation as well as the time we spent together discussing the leadership and career development topics outlined in the presentation. I still use some of the content and inspirational quotes in staff development presentations. (However, I no longer use the material referencing "An Officer and a Gentleman.") Looking back, the leadership traits I discussed were likely a reflection of where I was at that point in my own leadership development. If I were asked today to list some leadership traits I believe to be important some that would make the list include sincerity, fairness, respectful, confidence, and perspective. All of which are surely identified in one form or another on a leadership qualities list. If asked five years from now, the list will likely change once again.

When there are so many qualities that a leader is expected to possess, how does one looking to enhance leadership qualities sort through all of the recommendations? My initial response is experience. If I have learned one thing it is that we typically get better at things we do often and regularly, whether that be personal interests such as sports, cooking, and painting, or professional interests such as training, public

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Identifying Leadership Traits

(cont'd from P.2)

speaking and leadership. Most of us have inherent instincts to continually learn from both our failures and successes – exposure to both helps us grow and evolve as a leader.



Look for opportunities to be a leader with a professional membership association, the board of a local nonprofit, or even an internal committee of your own organization. By gaining leadership experience with organizations and projects for which you are passionate, you will likely develop your own list of leadership traits that are very much unique to your own leadership style. ■

Face Lift for Your Financials

(cont'd from P.1)

Financial Report (PAFR). The MD&A is intended to give readers objective, easy-to-understand information about the financial condition of your government. GASB 34 requires certain content to be included and does not allow for additional information. The required information includes currently known facts, decisions and conditions of the government and comparisons to the prior year, including charts and graphs. You can refer to GASB 34's discussion of the MD&A requirements at www.gasb.org (paragraphs 8-11).

Governmental financial statements may be prepared by the contracted auditor using source documentation obtained from the entity; therefore your auditors may provide a basic MD&A template. The template will commonly include language to cover basic items such as the brief discussion of the financial statements and may include the audited financial numbers from the current and prior year. Also, through the audit process your auditors may have insight as to reasons for the big changes in figures, such as the receipt of new Federal grants.

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Are Your Assets Impaired?

(cont'd from P.2)

How do I test for impairment? A capital asset identified as possibly being impaired should be tested for impairment by determining whether both of the following factors are present:

- The magnitude of the decline in use is significant (i.e., the expenses associated with continued operation and maintenance or costs associated with restoration of the capital assets are significant in relationship to the service and or benefit provided).
- The decline in use is unexpected (i.e., the restoration cost or other impairment circumstance is not a part of the normal cycle of the capital asset).

How do we measure impairment? For impaired capital assets that the government will continue to use, the amount of impairment should be measured by one of three methods listed below. The government should select the method that most appropriately reflects the decline in use of the capital asset.

1. Restoration cost approach – The amount of impairment is calculated from the estimated costs to restore the use of the capital asset. Generally, physical damage impairments are measured using this approach.
2. Service units approach – The amount of impairment is calculated by evaluating the service provided by the capital asset. Generally, impairments resulting from enactment or approval of laws or regulations or other changes in environmental factors or from technological development or obsolescence are measured using this approach.
3. Deflated depreciation replacement cost approach – The current cost for a capital asset to replace the current level of use is estimated.

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Subrecipient vs. Vendor

(cont'd from P.1)

According to OMB Circular A-133 §__.210, a subrecipient:

1. Determines who is eligible to receive what Federal financial assistance;
2. Has its performance measured against whether the objectives of the Federal program are met;
3. Has responsibility for programmatic decision making;
4. Has responsibility for adherence to applicable Federal program compliance requirements; and
5. Uses the Federal funds to carry out a program of the pass-through entity.

On the other hand, a vendor:

1. Provides the goods and services within normal business operations;
2. Provides similar goods or services to many different purchasers;
3. Operates in a competitive environment;
4. Provides goods or services that are ancillary to the operation of the Federal program; and
5. Is not subject to compliance requirements of the Federal program.

In essence, a subrecipient plays a significant role in ensuring the success of the Federal program and meeting the compliance requirements by having the responsibility of making the decisions to properly carry out the program. A vendor, in contrast, acts as a support for the program by providing the goods and services in a competitive market without necessarily being responsible for the program's overall success and compliance requirements.

Sometimes, making the determination between a subrecipient and a vendor may not be as straightforward due to special circumstances (e.g. having some characteristics of both a subrecipient and a vendor under the same

arrangement). Also, not all characteristics listed above can be present for a given arrangement. In such situations, professional consideration should be given when making the determination.

Finally, the substance of the relationship is more important over the form of the agreement when making the determination. Careful examination of the characteristics of the arrangement can reveal a better picture of the relationship than the label used for the arrangement. Understanding the difference between a subrecipient and a vendor can help better delineate responsibilities to the proper parties for the program's overall success. ■

Face Lift for Your Financials

(cont'd from P.3)

However, certain details, such as salaries for certified staff increased a certain percent because the governing body gave a step on the salary schedule, are best identified and explained by government personnel who know the transaction level reasons for the final figures.

You should use your own words to explain why variances exist between the current year and prior year and between the budget and actual results. Pay special attention to next year's budget section and include currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations. Remember, the GASB discourages boilerplate language in the MD&A, so as long as you are providing factual information related to financial data, more details will improve your MD&A.

With a little thought and planning, your MD&A can explain the things necessary for anyone reading your financial statements to understand your government's financial condition. ■

HMU Events

Details and links to online registration can be found at www.heinfeldmeech.com/hmu. For more help, contact Susan at 520-742-2611, x107 or hmu@heinfeldmeech.com.



Governmental Audit Update Webinar

Date/Time: Thursday, 8/22/14, 9:30-11 am MST

Registration Ends: August 19th

Payroll Essentials for Governments and Non-Profits

Location: Mesa, AZ (Mesa Convention Center)

Date: Monday, 12/8/14

Details and registration available by mid-October

HM News

We are happy to announce these recent staff promotions: Joshua Jumper, CPA, and Christopher S. Goeman, CPA to Audit Manager, Anthony St. George to Senior Associate, and Kenneth McGovern to Staff Associate II.

Are Your Assets Impaired?

(cont'd from P.3)

The estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars. Impairments resulting from a change in manner or duration of use should be measured using this approach.

In addition, capital assets no longer to be used or that are impaired due to the stoppage of construction should be reported at the lower of the carrying value or the fair value.

What if the impairment is temporary? When impairments are deemed to be temporary, then the capital asset(s) should not be written down.

Finally, the carrying amount of impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is considered permanent or temporary.

To ensure accurate disclosure in your organization's financial statements, be sure to consider the impairment of capital assets, particularly in light of the economy of the past few years. Additional information on the impairment of capital assets can be found in the GASB Statement No. 42. ■

About HM

Heinfeld, Meech & Co., P.C., CPAs and Business Consultants, has offices in Tucson, Phoenix and Flagstaff. We are the recognized leaders in the State of Arizona in the field of governmental accounting and auditing.

Our active involvement with national and state associations keep us up-to-date about emerging issues affecting the governmental industry. We offer this free newsletter as part of our commitment to providing resources and training to governmental business personnel. For more about our firm, please visit our web site at www.heinfeldmeech.com.

