

# Fundamentals

Second Quarter 2006

Ways and means for the public sector

## Disaster relief funding agreements: Accounting recognition of FEMA grants

Natural disasters in several states this year caused significant damage to government lands and property. To receive Federal Emergency Management Agency (FEMA) funds for disaster recovery, governments in affected states must enter a disaster relief funding agreement. These agreements cover terms such as:

- Funding levels of eligible costs and cost sharing
- Definition of eligible costs or references to the public law that defines eligible costs
- Duplication of benefits when the subrecipient receives insurance proceeds related to the damages
- Required documentation and procedures for obtaining reimbursement of expenditures
- Time for performance requirement

If you plan to review the accounting treatment of natural disaster-related loss or damage, consider the following issues.

### • Revenue recognition

Paragraph 19 of GASB 33 “Government-mandated Nonexchange Transactions and Voluntary Nonexchange Transactions” says state eligibility requirements are conditions — established by enabling legislation or the provider — that must be met before a transaction can occur. Until these provisions are met, the recipient doesn’t have a receivable or revenue. Paragraph 20 defines the eligibility as:

- The recipient has the characteristics specified by the provider
- The provider offers resources based on a reimbursement basis and the recipient has incurred allowable costs under the program
- Contingencies (applies only to voluntary transactions)

When evaluating the accounting recognition of FEMA grant revenues, establish whether a disaster relief funding agreement has been signed and that the requirements are met. Does an authorized contract exist for the natural disasters? Are affected government

lands within the disaster areas? Have costs or expenditures associated with the damage been expended within time requirements specified by the funding agreement? Were incurred costs eligible for reimbursement through the agreement?

If the government has a signed funding agreement and has met the eligibility requirements, a receivable and revenue should be recorded. Any reimbursement not received within 60 days of the government’s fiscal year end will be deferred.

Often, there is a significant time lag between occurrence of a natural disaster and execution of a FEMA funding agreement. If arrangements for FEMA funding have been substantively completed, but the fully executed funding agreement won’t be signed before year end, the applicable portion of FEMA revenue or receivable can be recognized for allowable costs or expenditures incurred as of year end.

### • Federal expenditures

Based on the guidance of the Office of Management and Budget Circular A-133, paragraph 205, a payment becomes a federal expenditure when the grant activity (expenditure transaction) has taken place.

Federal expenditures would represent allowable expenses as outlined in the various funding agreements. If there is no funding for natural disaster agreements, federal expenditures for those costs shouldn’t be included on the schedule of expenses of federal awards. Because entering into an agreement can be a lengthy process, disbursements made in one fiscal year may become federal expenditures in a subsequent fiscal year. Should this happen, a footnote disclosure reconciling this fact must be added to the state employee federal appeal.

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## Accounting for fundraising: The how-tos for a well-planned campaign

As not-for-profit (NFP) organizations around the country are required to become less dependent on federal and state dollars, they're struggling to find ways to replace these revenue streams. To this end, many NFPs are embarking on formal fundraising campaigns.

However, there are several accounting issues you should consider first to make sure you're in compliance with generally accepted accounting principles. For example, is a transfer of assets, including a promise to give, conditional? Is the contribution unrestricted? In every case, it's the donor's intent that determines the answer to these questions.

### Conditional pledges

When a donor stipulates a future and uncertain event which must occur prior to the transfer of assets to an NFP – including a promise to give – the pledge is conditional. When a condition is determined, the pledge shouldn't be recorded as a contribution until that clause is substantially met. However, a conditional pledge should be disclosed in the notes to the financial statements.

A classic case of a conditional pledge: A matching gift, in which a donor intends to give an amount, for instance \$25,000, once the organization has raised an additional \$25,000 from other sources. Unless the additional \$25,000 is raised, the donor will be released from their obligation to give the matching \$25,000. This creates uncertainty the original \$25,000 will ever be received, and therefore shouldn't be recorded as a contribution. But, if the likelihood of not meeting a donor-imposed condition is remote, the pledge should be recognized as a gift.

### Donor-imposed restrictions

Contributions may be received with donor-imposed restrictions. These are different than donor-imposed conditions, in that no future and uncertain event must occur in order for the NFP to record the donation. However, the donors intend the gifts to be used for specific purposes or only after a stipulated period of time has elapsed. These amounts should be recorded as temporarily restricted contributions and remain in temporarily restricted net assets until the restrictions are substantially met.

Let's say a donor indicates a donation to a school should be used to purchase a bus, then the amount remains in temporarily restricted net assets until the school buys the bus. Likewise, if a donor indicates a gift should be held in an interest-bearing account for a determined period of time, then the amount remains in temporarily restricted net assets until that time period has elapsed.

With no notice of intention that a donation should be restricted as to purpose or time, the amount should be recorded as an unrestricted contribution. A donor may also impose limits on a gift which are permanent. In this case, the amount is recorded as a permanently restricted contribution which increases in permanently restricted net assets.

### How will contributions be used?

Often, during fundraising campaigns, an NFP will send out a package with a pledge form to be filled out and returned. Though it's an effective way to reach donors and solicit contributions, the pledge form should clearly state the planned use of the gifts. Remember it's the donor's intent that determines how the contribution is to be recorded. If a donor fills out the form and returns it, then it should be implied that their gift will be used as the form indicates.

In the pledge package, you may want to convey to donors a specific need, such as the purchase of new equipment, but solicit unrestricted contributions to fund programs and operations as well. In this case, the wording should be clear that the contributions will be used at your organization's discretion, making the gift unrestricted. Another option would be to list all choices (i.e., procurement of equipment or to fund programs and operations) then donors can check one or more boxes to restrict their individual gift.

A pledge campaign is an effective way for your NFP to solicit needed funds from an existing donor base and reach out to new donors. But remember to consider all of the accounting implications so that the desired results aren't derailed by the consequences of properly accounting for the campaign in accordance with these rules.

## Tax tips

### Exemption certificate – don't leave home without it

Many not-for-profits (NFPs) understand the available exemptions from federal and state income taxation. They also know state exemptions from sales and use tax and real and personal property taxes. But when traveling on official business, do NFP employees properly claim available exemptions from hotel occupation tax?

If you travel as an employee or representative of your organization you can save your NFP money. Although rules vary by state and locality, several state and local hotel occupancy exemptions exist for NFPs. When you book travel, remember to inquire with the lodging facility about possible hotel occupancy exemptions and the documents necessary to claim them. Then, provide the documentation in advance or bring it with you to save on your taxes. Hotel occupancy tax rates can soar well into double-digits, so your savings can easily add up.

### What your organization can do when per diem allowances don't cover an employee's away from home costs

In the face of a weak dollar, many organizations are finding published federal per diem hotel and meal allowance amounts are not enough to cover out-of-pocket costs for out-of-country hotel and meals

expenses. Obviously organizations want to pick up the tab and not unduly burden their employees, but they also want to be fiscally responsible.

One alternative to the per diem method of handling hotel and meal costs: an accountable plan. Your organization probably already has a plan in place to cover transportation and incidentals. Adding lodging and meals is the next step.

Accountable plans include reimbursement arrangements and expense advances and must include the following rules:

- Expenses must have a business connection
- Expenses must be adequately accounted for within a reasonable period of time
- Excess reimbursement, advance or allowance must be returned to the employer within a reasonable period of time

Although an accountable plan adds complexity in terms of record keeping, it's the only way to make your employees "whole" without creating a compensation issue. Reimbursements in excess of per diems or outside of an accountable plan are considered wages and are subject to income and social security tax withholdings. And remember, make sure your accountable plan is in writing.

## Disaster relief funding, continued from page 1

### • Liability recognition

GASB 10 addresses the accounting for risk financing or insurance-related matters of government entities. Risks of loss include acts of God. The standard requires liability or expenditure recognition when information is available before the financial statements are issued. This indicates probability that an asset had been impaired or a liability had been incurred. It also establishes when the amount of the loss can be reasonably estimated.

The government should consider potential impairments and liabilities caused by all natural disasters. If it's determined that such charges exist, the liability and expense would be recorded at the governmentwide level.

The liability would not be booked at the fund level based on Interpretation No. 6 since it isn't considered "due" at the balance sheet date. The expense associated with the liability wouldn't be deemed a federal expenditure as the grant activity (expenditure transaction) hasn't taken place as required in OMB A-133.

If it's determined that the asset has been impaired, it should be noted in the financial statement. A liability with a corresponding asset may need to be recorded as well.

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