

INTERGOVERNMENTAL FINANCIAL DEPENDENCY

**A Guide for State and Local Governments
in Preparing a Special Report**

PREPARED FOR AND OFFERED IN THE PUBLIC INTEREST BY CLIFTONLARSONALLEN LLP

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Publication Information:

PUBLISHED BY: **CliftonLarsonAllen LLP**

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EDITION: First

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INTRODUCTION

If the recent recession and economic crisis have taught us anything, it is that our notion of the fiscal sustainability of the federal government — including its ability to create new debt with the full intent and means of paying it off in a timely manner — is fragile at best. Assumptions about the role of the federal government in rescuing private businesses, creating jobs, and in providing a significant and consistent flow of funding to state and local governments may never be the same.

Since the 1960s, the federal government has grown in a manner that has caused it to become increasingly intertwined with state and local governments. More than ever, state and local governments have come to depend on federal dollars for roads and infrastructure, health care and social programs, education and research, and a host of other vital services.

As billions of federal dollars have been pumped into economic stimulus initiatives over the past few years, and billions more have been spent to bail out the financial industry, a brighter light has begun to focus on the associated spike in federal deficits and growth in total federal debt. Now that the economy is slowly improving and the political balance in Washington has changed, talk of slashing government spending has become the topic of the day. When cuts are eventually enacted, they will inevitably affect funding to programs that drop federal dollars directly into state and local government coffers. Related risks to the fiscal stability and service delivery capacity of state and local governments, and the citizens they serve, will be increasingly clear and less likely to be ignored.

Based on a compilation from the 2009 audited financial reports of 47 states, the percentage of total state revenue that comes directly from the federal government averages 39 percent. Some government finance administrators are beginning to acknowledge the risk this fiscal interdependency creates, but for many government leaders and citizens, this risk is going largely unnoticed, unmeasured, and unreported. At the same time, non-government users of governmental financial statements are often unaware of the extent of intergovernmental financial dependency.

Using the Commonwealth of Virginia as an example, this guide illustrates the types of data that can be gathered, analyzed, and presented to help government leaders, citizens, and other stakeholders in the future of state and local governments, better understand the financial interdependency of governmental entities. It can also serve as a suggested framework for the public presentation of such information in support of efforts to increase public awareness and promote public dialogue.

The guide helps government leaders and stakeholders to address several critical questions:

- What is the financial relationship of our state or local government with the federal government?
- How does federal funding impact our constituent groups and individual citizens?
- How does federal funding impact the overall economy of our state or local government?
- What actions can help reduce the risks associated with intergovernmental financial dependency?

SELF-ASSESSMENT QUESTIONNAIRE

Introduction

In considering whether to develop a special report on intergovernmental financial dependency, it is necessary to first determine the degree to which a government receives funds from other levels of government. For state governments, the principal source of intergovernmental flows will be the federal government; although some states receive funds from their local governments. For local governments, both the state and the federal government may provide significant funds, with the latter providing support largely for education and social services programs.

To assist in developing an initial assessment of which intergovernmental flows may be present for your government, we have provided the following questions. The first set is more general in nature, while the second set delves into detail a bit more. Answering these questions should provide a general understanding of the presence of intergovernmental financial dependency, and will facilitate a decision on whether to proceed with developing a special report along the lines of what is presented and illustrated in this guide.

General Questions

1. If your government develops a strategic plan, does that plan address, in a comprehensive way, the flows of funds from other levels of government, and does it identify those flows as a strength, weakness, opportunity, or a threat?

☐ Yes ☐ No

Response:

2. Does your government either prepare or have others prepare a multi-year economic forecast of key indicators, such as estimates of projected revenues from taxation and other sources, estimates of employment levels within the governmental jurisdiction, projected construction activity, and the like? If such forecasts are prepared, what do they anticipate in terms of future funds flowing from other levels of government? For example, do they assume that such flows will maintain at current levels, increase, or decrease?

☐ Yes ☐ No

Response:

3. Is there a person or position within your government that is responsible for monitoring changes in the laws and administrative policies of governments that provide funds to your government? If so, how have legislative and/or policy changes impacted the flow of funds to your government over the past two to five years? Have those funding flows remained the same, increased, or decreased because of the changes in legislation and/or policy?

☐ Yes ☐ No

Response:

4. Looking forward, are you aware of any changes to the laws or administrative policies of governments that fund your government that impact the flow of funds this year, next year, or years beyond that?

☐ Yes ☐ No

Response:

5. Do you read the annual financial report of the government or governments that provide funds to your government? Do you know of other officials or employees of your government who read such reports?

☐ Yes ☐ No

Response:

6. Have the elected leaders of your government, in either its executive or legislative branch, ever received formal briefings on the current and anticipated financial condition of governments that provide funding to your government?

☐ Yes ☐ No

Response:

Specific Questions

7. If your government receives funding from the federal government, what is your current understanding of the ability of the federal government to sustain itself fiscally? In this regard, do you believe the federal government will continue to provide funding at levels similar to the past few years or will that funding decrease?

☐ Yes ☐ No

Response:

8. In all probability, your government prepares a Schedule of Expenditure of Federal Awards, sometimes referred to as the Single Audit Report. This schedule or report gives significant detail on the sources and programmatic purposes of all federal funds flowing to your government. Are you familiar with this report, have you read this report, and are you aware of any analysis performed by your government in relation to this report? Could you list, if asked, the five federal departments that provide the most grant funding to your government during the past year, and during the past five- to 10-year period?

☐ Yes ☐ No

Response:

9. Are there employees of your government whose salaries or wages are specifically paid for — in whole or in part — with funds provided by another level of government? Are the numbers of such employees so funded and the name of the government institution, department, or agency with which they are affiliated readily available?

☐ Yes ☐ No

Response:

10. Are you aware of any available report that quantifies and lists the total amount per year of the following federal payments received within the jurisdiction of your government?

- a. Pension benefit payments to federal civilian and military retirees
- b. Salaries and wages paid to current civilian and military employees of the federal government
- c. Social Security and disability payments made to retired citizens
- d. Payments made to or on behalf of Medicare recipients

☐ Yes ☐ No

Response:

11. Are you aware of an available report that quantifies the total amount per year of purchases of goods and services by federal departments and agencies from business establishments within your government's jurisdiction?

☐ Yes ☐ No

Response:

12. Federal funds flow directly to both individual states and to localities within a state's jurisdiction. Are you aware of an available report that quantifies the amount of federal grants flowing directly to localities within your state's jurisdiction?

☐ Yes ☐ No

Response:

13. Are you aware of the total number of federally owned or leased buildings within your government's jurisdiction? If asked, could you provide information on the amount of square footage associated with federally owned or leased buildings?

☐ Yes ☐ No

Response:

14. Are you aware of the total number of military bases and facilities within your government's jurisdiction? If asked, could you provide key information about such bases and facilities, such as the replacement value, number, and/or square footage of buildings, the number of employed civilian and military personnel, and the total acres associated with these bases and facilities?

☐ Yes ☐ No

Response:

15. Is there a current report that identifies proposed or anticipated future legislative changes of the federal government, that your government would expect to cause significant changes in federal funds flowing to your government?

☐ Yes ☐ No

Response:

16. If asked, could financial management staff in your government provide an alternate presentation of the published annual government-wide statement of activities that would break out operating grants and contributions, as well as capital grants and contributions, by the originating revenue source, i.e., federal government, other government, or non-government?

☐ Yes ☐ No

Response:

17. If asked, could financial management staff in your government provide a schedule that illustrates the amount of expenses-by-function, as listed in the government-wide statement of activities, that are supported by federal revenues?

☐ Yes ☐ No

Response:

18. If asked, could the financial management staff in your government provide a schedule that identifies the total federal debt obligations held directly or through pooling arrangements by your government, including any held in a government-sponsored pension fund? Could such a schedule identify the amount of federal debt obligations that will mature beyond one year?

☐ Yes ☐ No

Response:

19. Are you familiar with reports prepared by the U.S. Treasury Department that identify the estimated ownership of U.S. Public Debt Securities, including amounts held by foreign governments and foreign interests?

☐ Yes ☐ No

Response:

20. Does the financial management staff of your government provide published information about the financial position of governments that serve as funding sources for your government?

☐ Yes ☐ No

Response:

AN ILLUSTRATIVE SPECIAL REPORT ON INTERGOVERNMENTAL FINANCIAL DEPENDENCY AND RELATED RISKS: BASED ON THE COMMONWEALTH OF VIRGINIA

Introduction

State governments across the nation continue to feel the effects of the financial crisis of 2008 and the subsequent economic recession. The establishment of various economic recovery efforts by the U.S. government, beginning in 2009, provided state governments, including the Commonwealth of Virginia (Commonwealth), with temporary financial relief. This assistance, however, temporarily increased the Commonwealth's financial dependency on the federal government beyond previous levels and gave additional impetus to the need for understanding and monitoring such intergovernmental financial dependency.

The purpose of this *Special Report on Intergovernmental Financial Dependency and Related Risks* (the report) is to provide elected officials, citizens, and other stakeholders with a better understanding of the fiscal status of the Commonwealth as it is impacted by intergovernmental financial dependency. The information provided here is intended to support decision-making by the governor, the General Assembly, executive management of state agencies and institutions, economic and other advisors, and other stakeholders.

This report presents key measures and analysis of the Commonwealth's direct and indirect financial dependency on the U.S. government. Although this report is issued separately from the Comprehensive Annual Financial Report of the Commonwealth (CAFR), it will provide a historical, economic, and operational context of the Commonwealth's financial position and results of operations.

Fiscal Status of the United States Government

The federal government's entry into the social and economic problems of state and local governments, beginning with the Great Society programs of President Lyndon Johnson, resulted in federal funding support of community development and organization, job training, and improved housing. In the intervening years, the programmatic purposes of federal funding have been expanded, and the federal government now disburses more than \$500 billion a year to state and local governments, not counting recent stimulus funding.

This 45-year history of federal funding has fostered important and financially material relationships between federal, state, and local levels of government. In order to understand and assess the financial relationship between the Commonwealth and the federal government, it is essential to understand the current fiscal position of the federal government.

The U.S. Department of the Treasury prepares an annual *Citizen's Guide to the Financial Report of the United States Government*, which provides analysis of the current fiscal status of the U.S. government, and an economic outlook on the projected future status of the government.

Table 1a, Nation by the Numbers, was directly excerpted from the citizen's guide. It provides a brief snapshot of the government's financial position and condition. At the end of FY2010 the federal government had a net operating cost of negative \$2.1 trillion, meaning there were more costs than generated revenues. Also, the net position of the federal government was a negative \$13.5 trillion, meaning that liabilities were greater than assets.

Table 1: Excerpt from 2010 Citizen's Guide to the Financial Report of the United States Government			
NATION BY THE NUMBERS			
A Snapshot of			
The Government's Financial Position & Condition			
billions of dollars	2010	2009	
Gross Costs	\$ (4,472.3)	\$ (3,735.6)	
Earned Revenues	\$ 309.2	\$ 300.9	
Gain / (Loss) from Assumptions	\$ (132.9)	n/a	
Net Cost	\$ (4,296.0)	\$ (3,434.7)	
Total Taxes and Other Revenues	\$ 2,216.5	\$ 2,198.4	
Other	\$ (0.8)	\$ (17.4)	
Net Operating Cost	\$ (2,080.3)	\$ (1,253.7)	
Assets:	\$ 2,883.8	\$ 2,667.9	
Less: Liabilities, comprised of:			
Debt Held By the Public	\$ (9,060.0)	\$ (7,582.7)	
Federal Employee & Veteran Benefits	\$ (5,720.3)	\$ (5,283.7)	
Other	\$ (1,576.3)	\$ (1,257.4)	
Total Liabilities	\$ (16,356.6)	\$ (14,123.8)	
Net Position (Assets Minus Liabilities)	\$ (13,472.8)	\$ (11,455.9)	
Sustainability Measures:			
Statement of Social Insurance: 1			
Closed Group (current participants) 2	\$ (43,058)	\$ (52,145)	
Open Group (current + future participants) 3	\$ (30,857)	\$ (45,878)	
Social Insurance as Percent of Gross Domestic Product (GDP):4			
Closed Group (current participants)	-5.1%	-6.6%	
Open Group (current + future participants)	-3.7%	-5.8%	
Budget Results			
Unified Budget Deficit	\$ (1,294.1)	\$ (1,417.1)	
<small>1 Present value of projected revenues and expenditures for scheduled benefits over the next 75 years of certain benefit programs that are referred to as Social Insurance (e.g., Social Security, Medicare). Not considered liabilities on the balance sheet. 2 Includes current participants (i.e., receiving and/or are eligible to receive benefits) for the Social Security and Medicare programs ages 15 and over at the start of the 75-year projection period, except for the 2007 Medicare programs for which current participants are assumed to be at least 18 years of age at the start of the 75-year projection period. 3 Includes all current and future projected participants over the 75-year projection period. 4 Social Insurance values as reported in the Statement of Social Insurance. GDP values from the 2010 Social Security and Medicare Trustees Reports represent the present value of GDP over the 75 year projection period.</small>			

A third component highlighting sustainability shows a \$30.9 trillion obligation, net of projected revenues, associated with social insurance programs (principally Social Security and Medicare). This last piece is currently not considered a liability on the balance sheet of the United States government.

The citizen's guide is based on the *Financial Report of the United States Government*, which is a complete and audited financial report. The financial report includes the following disclosures concerning the sustainability of the United States government:

"...under current policies and the assumptions used in this report, the debt-to-GDP ratio will continually increase over the next 75 years and beyond, which means current policies are not sustainable."

— Supplemental Information Section

"These projections show continual increases in debt as a percentage of GDP, meaning fiscal policy is unsustainable over the long term." — Report of Acting Comptroller General of the United States

What is the Commonwealth's Relationship with the Federal Government?

The Commonwealth's CAFR for FY2010 reported total revenues of \$47.5 billion. Table 2b is based on information extracted from the CAFR's Statement of Activities, and illustrates the breakdown of total revenues. Operating and Capital Grants and Contributions include funds provided directly to the Commonwealth by the federal government, which are also included as a part of the current costs of the U.S. government as shown in Table 1.

Commonwealth revenues in recent years, as shown in Chart 1b, follow an expected trend, given the economic downturn and recession beginning in 2007. However, it is important to analyze the increase in total revenue from FY2009 to FY2010 of approximately \$7.3 billion.

General revenues increased from FY2009 to FY2010 by \$1.5 billion, charges for services increased by \$1.2 billion, and operating and capital grants and contributions increased by \$4.6 billion, or 63 percent of the increase in total revenues.

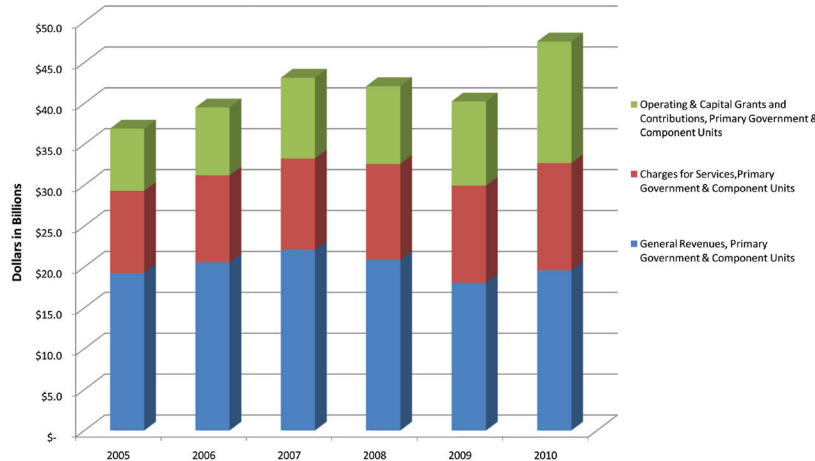
The ability of the Commonwealth to generate revenues (general revenues and charges for services) increased from FY2009 to FY2010, breaking a two-year declining trend and indicating that the Commonwealth's ability to generate revenues remains present. Although operating and capital grants and contributions are represented within the financial statements as revenue, the precise portion of federal revenues is not identified in the Statement of Activities; however, the federal portion of revenues can be obtained from an audited supplemental statement prepared by the Commonwealth. Titled the Schedule of Expenditure of Federal Awards, it is also known as the Single Audit Report.

Table 2: Summary of the Revenue of the Commonwealth of Virginia, FY2010

	Charges for Services	Operating Grants and Contributions *	Capital Grants and Contributions *	Total
<u>Program Revenues:</u>				
Primary Government:				
Governmental Activities	\$ 2,264,136	\$ 9,951,302	\$ 1,603,355	\$ 13,818,793
Business-Type Activities	3,279,750	4,237	-	3,283,987
Component Units	7,549,204	2,517,369	789,741	10,856,314
Subtotal Program Revenues				\$ 27,959,094
<u>General Revenues:</u>				
Primary Government				16,976,263
Component Units				2,613,690
Subtotal General Revenues				\$ 19,589,953
Total Revenues				<u>\$ 47,549,047</u>

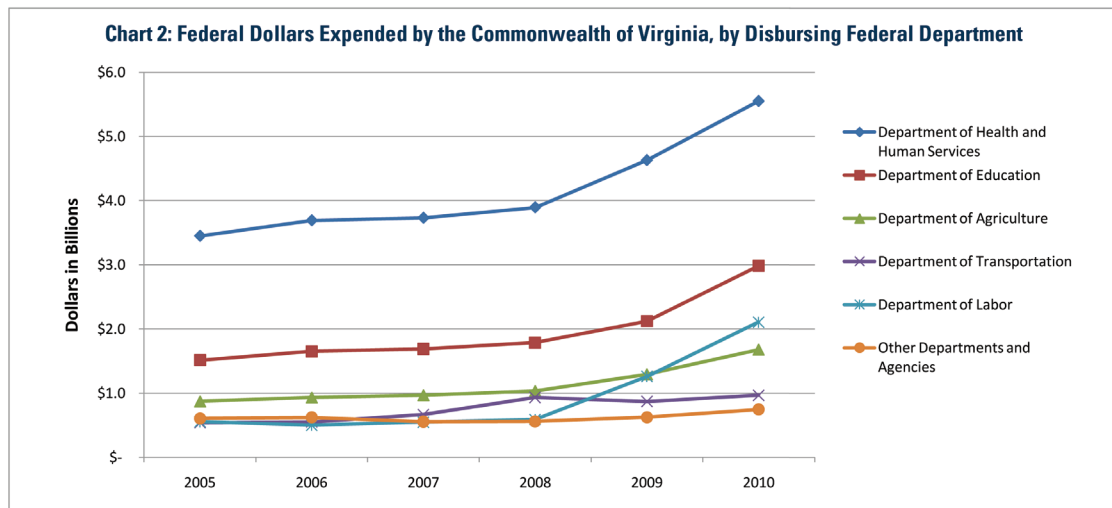
* Intergovernmental Flows, particularly federal flows to the Commonwealth, are typically included within the Operating and Capital Grants and Contributions headings.

Chart 1: Composition of Commonwealth of Virginia Revenues

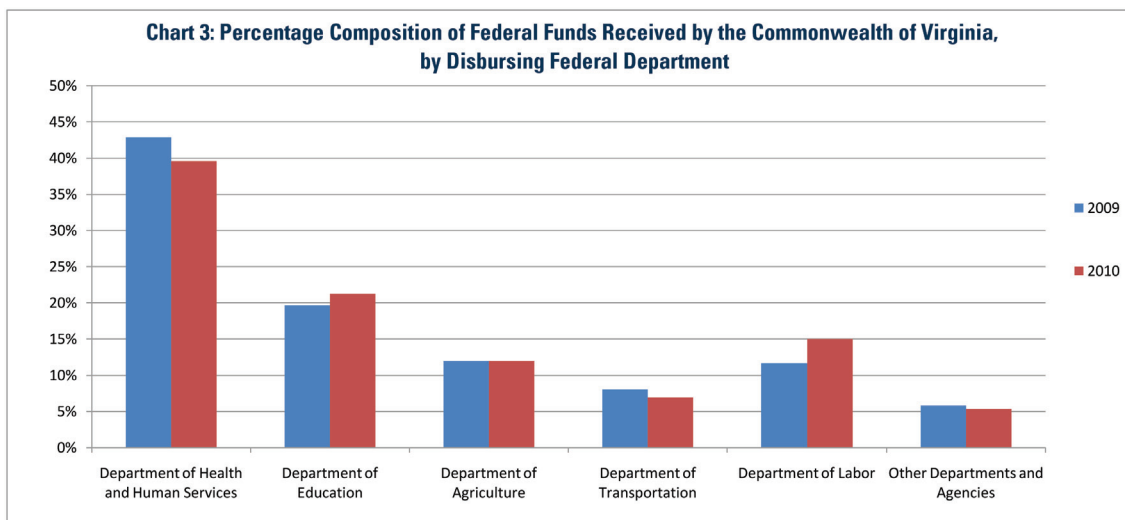


In FY2010, based on the Single Audit Report, the Commonwealth expended \$14 billion of federal dollars in the form of grants. Chart 2c indicates that between FY2009 and FY2010 there was an increase of \$3.2 billion of federal dollars expended by the Commonwealth. The increase of federal dollars expended by the Commonwealth was principally due to the infusion of federal stimulus dollars. However, this increase in federal funding also temporarily increased the Commonwealth's dependency on such funding. When taken as a percentage of total revenues, approximately 30 percent of all the Commonwealth's revenues originated with the federal government, generally in the form of federally funded grants and federal Medicaid payments.

The U.S. Department of Health and Human Services provides the largest amount of federal dollars expended by the Commonwealth and represents the largest percentage increase in federal dollars received over the past six years. This increase is primarily related to Medicaid and other social support programs such as Children's Health Insurance, Low-Income Energy Assistance, Child Care and Development, and Public Health Emergency Preparedness.



The federal government continues to provide significant direct financial support to the programs and activities of the Commonwealth. However, it is important to recognize that federal funding is dynamic. For example, the bulk of federal economic stimulus funding for the Commonwealth will cease by the end of FY2011. Further, the Congress has recently reduced funding for certain federal programs and is actively considering greater reductions. In addition, as illustrated by Chart 3c, federal funds by originating federal agencies can change in the percentage of total dollars expended by the Commonwealth from year to year. Although the total amount of federal dollars expended by the Commonwealth increased from FY2009 to FY2010, the more important fact is that the composition changed, in part resulting in new funding in FY2010 that was not present in FY2009.

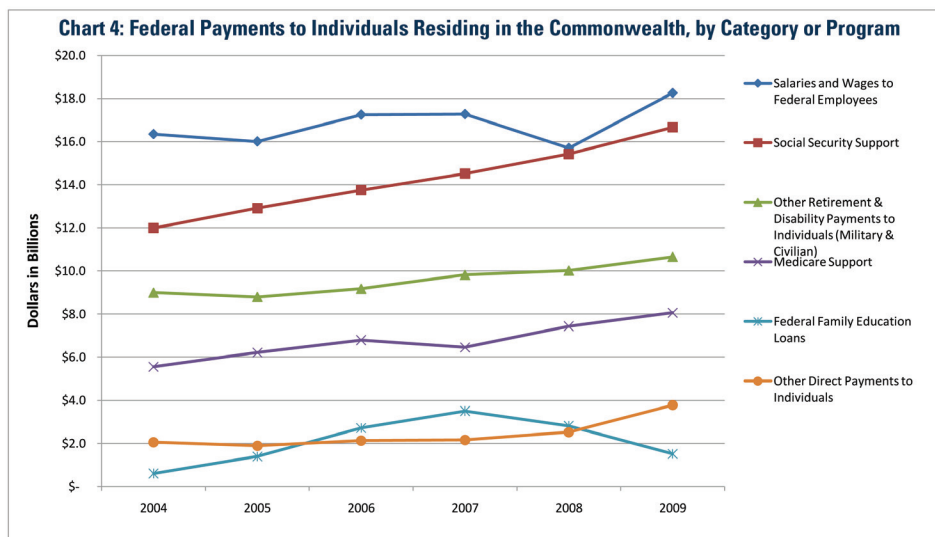


How Does Federal Funding Impact Citizens of the Commonwealth?

The U.S. Census Bureau conducts a survey of governments and has a methodology for collecting, analyzing, and reporting certain financial data associated with state and local governments. As a result of this effort, the Census Bureau produces the Consolidated Federal Funds Report (CFFR). The CFFR highlights the amount of federal payments made directly to a state or local government, as well as other payments and disbursements occurring within the jurisdiction of a state or local government.

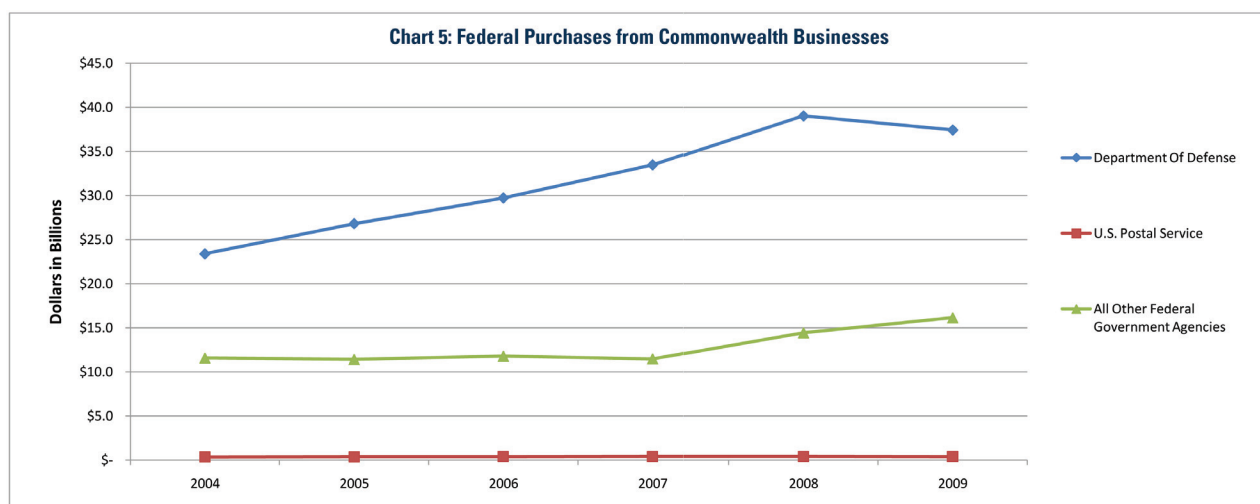
The CFFR illustrates that federal payments to individuals residing in the Commonwealth totaled approximately \$59 billion.

Chart 4d is based on the CFFR and illustrates the breakdown of the payments to individuals. Salaries and wages to federal employees and Social Security support make up approximately 31 percent and 28 percent, respectively, of the total payments to individuals. Chart 4 notes that, for the most part, all major categories have remained fairly consistent over a six-year period except for Social Security support, which has increased by a consistent percentage.



How Do Federal Departments and Agencies Impact the Commonwealth's Economy?

Also included within the CFFR is information on the dollar amount of goods and services purchased from businesses within the Commonwealth. Chart 5d illustrates that procurements in FY2009 totaled approximately \$54 billion, with the procurements of the U.S. Department of Defense constituting approximately 69 percent of the total. Given the proximity to Washington, DC and military activities located throughout of the Commonwealth, it is understandable that the U.S. Department of Defense would have the largest share of such procurements.



In fact, Table 3e, the 2010 base structure report produced by the Department of Defense, indicates that within the Commonwealth there are 221 total military sites with a combined present replacement value of \$44.6 billion. It is also important to note the geographic distribution of the 15 largest military sites. Although the northern and eastern parts of the Commonwealth contain a majority of such sites, the western and central areas of the Commonwealth are also represented.

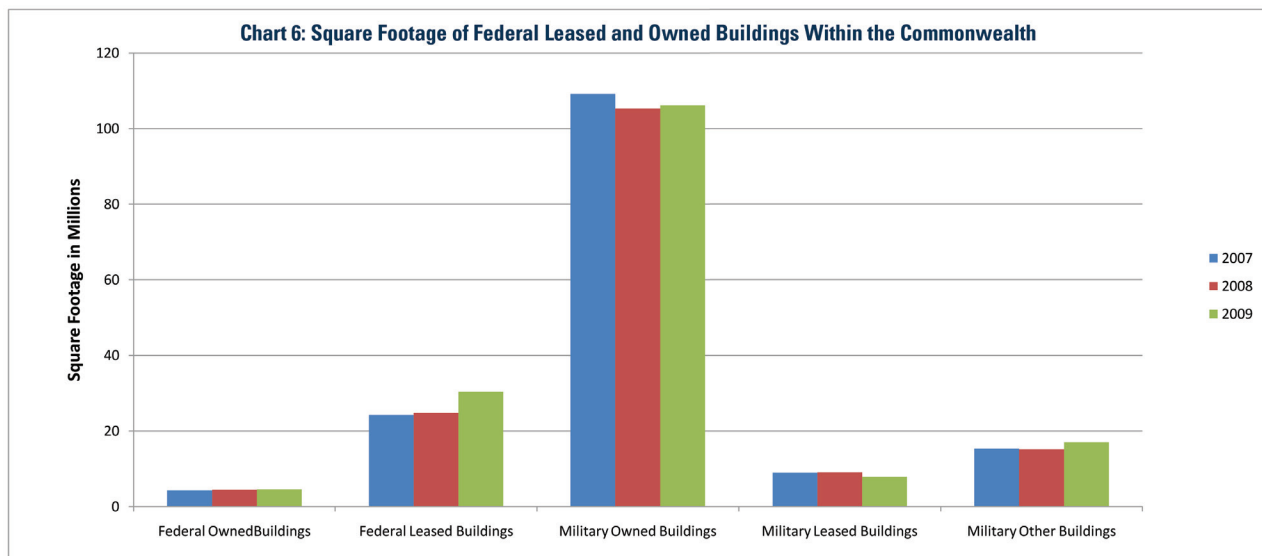
Table 3: 15 Largest U.S. Military Facilities Within the Commonwealth, as of 9/30/09

<u>Military Site</u>	<u>Military Branch</u>	<u>Nearest City</u>	<u>Present</u>	<u>Total</u>
			<u>Replacement Value (\$Millions)</u>	<u>Personnel on Site</u>
NS Norfolk	Navy	Norfolk	\$ 5,527.0	41,014
Pentagon Reservation	WHS	Arlington	5,169.5	6,001
Fort Belvoir	Army	Fort Belvoir	3,384.1	24,034
Quantico	Marine Corps.	Quantico	3,280.7	12,840
NSA Norfolk NSY	Navy	Portsmouth	2,348.9	8,655
Fort Lee	Army	Fort Lee	1,946.5	16,362
Fort Eustis	Army	Fort Eusits	1,907.9	14,534
Langley	Air Force	Langley	1,861.9	11,397
NAVPHI Little Creek	Navy	Norfolk	1,819.0	13,380
NAS Oceana	Navy	Virginia Beach	1,567.6	7,952
Radford AAP	Army	Radford	1,444.9	1,815
NWS Yorktown	Navy	Yorktown	1,171.7	296
Defense General Supply Center	Army	Richmond	1,056.0	199
Fort Pickett	Army Guard	Blackstone	1,035.6	1,946
NSA South Potomac	Navy	Dahlgren	1,027.6	1,356
All Other Sites: 206 total			10,030.4	38,809
			<u>\$ 44,579.3</u>	<u>200,590</u>

Military sites represent not only a strong presence within the Commonwealth as purchasers of local goods and services, but also as an employer of Commonwealth citizens. As illustrated in Table 3, on Sept. 30, 2009, 200,590 personnel served on all of the Virginia military sites; 117,197 as military, 56,363 as civilian, and 27,018 as “other” personnel. These military-related personnel represent 4.8 percent of the total estimated Commonwealth workforce of 4.2 million, as of September 2009.

Chart 6f shows that military and civilian sites contain buildings that are either owned or leased by the federal government. There is a

significant amount of square footage leased by civilian and military agencies within the Commonwealth. Owners of those leased facilities are impacted by leasing decisions made by the federal government.



Other Measures of Federal Impact

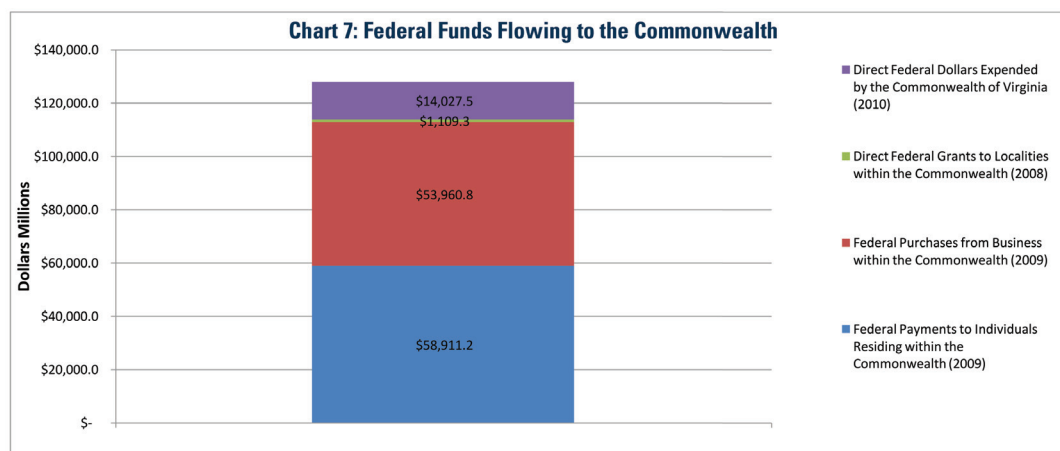
Although not illustrated within this report, it is important to note there are other categories of federal financial activities and operations that have an impact on the Commonwealth. These categories include, but are not limited to:

- The amount the Commonwealth holds in U.S. public debt
- Changes in the valuation of U.S. treasury securities
- Federal courts within the Commonwealth
- National parks and historical landmarks within the Commonwealth
- Loans guaranteed by the federal government (primarily mortgages and student loans)

Conclusion

To summarize, Chart 7g illustrates the four largest categories of federal dollars flowing to the Commonwealth, directly to its local governments, and directly to its citizens and businesses. As illustrated, the total of all federal flows is approximately \$128 billion. The 2009 state GDP of the Commonwealth is \$337.4 billion (chained 2005 dollars)

reported by the U.S. Bureau of Economic Analysis. The total of all federal dollars flowing to the Commonwealth as a percentage of the Commonwealth's GDP is 38 percent, indicating the Commonwealth is directly and indirectly dependent on financial resources flowing from the federal government.



It is important to note that specific flows of intergovernmental revenues can and will be modified based on changes to federal laws and federal appropriations. The Commonwealth is also subject to changes in investment earnings and asset values associated with U.S. Treasury securities it holds.

Appendix A: Format for Disclosing Federal Funding to the Commonwealth of Virginia, as Supplemental Information

Generally Accepted Accounting Principles, as promulgated by the Governmental Accounting Standards Board, do not prohibit the segregation of federal dollars within the government-wide Statement of Activities as presented within the Comprehensive Annual Financial Report. Neither is such segregation currently required. This has led to the Commonwealth's current reporting practice of combining federal and other dollars within the grants and contributions totals reported within governmental activities, business-type activities, and component units. This produces a highly aggregated presentation of grant and contribution revenues, both operating and capital, that inhibits an understanding of the significant revenues flowing from other governments at the department/agency and programmatic level.

Segregating and reporting federal dollars, as illustrated in Tables 4 and 5b, would provide significant benefit to program managers, senior policy makers, citizens, and other users of the Commonwealth's general purpose external financial report, and aid in their understanding of how changes in revenues from the federal government impact the Commonwealth.

Table 4: Illustrative Format for Reporting Federal Revenues in Relation to Total Commonwealth of Virginia Revenues, FY 2010

<u>Functions</u>	<u>Total Revenue</u>	<u>Total Federal</u>	<u>Percentage Federal</u>
Program Revenues:			
Primary Government:			
Governmental Activities	\$ 13,818.8	xx	xx
Business-Type Activities	3,284.0	xx	xx
Component Units	10,856.3	xx	xx
Subtotal Program Revenues	27,959.1	xx	xx
General Revenues:			
Primary Government	16,976.3	N/A	N/A
Component Units	2,613.7	N/A	N/A
Subtotal General Revenues	19,590.0	N/A	N/A
Total Program/General Revenues	\$ 47,549.1	\$ 14,027.5	29.50%

Table 5: Illustrative Format for Reporting Commonwealth of Virginia in Relation to Federally Funded Dollar Amounts and Personnel

<u>Government Function</u>	<u>Expense by Function</u>	<u>Federal Funding by Function</u>	<u>Percentage of Expenses Funded by Federal Government</u>	<u>Federally Funded Personnel (FTE)</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 2,828.7	xx	xx	xx
Education	9,311.6	xx	xx	xx
Transportation	2,311.6	xx	xx	xx
Resources and Economic Development	1,106.7	xx	xx	xx
Individual and Family Services	12,285.1	xx	xx	xx
Administration of Justice	2,741.4	xx	xx	xx
Interest and Charges on Long-term debt	206.0	xx	xx	xx
Total Governmental Activities	\$ 30,791.1	xx	xx	
Business-type Activities:				
Unemployment Compensation	923.0	xx	xx	xx
Other	2,113.4	xx	xx	xx
Total Business-type Activities	\$ 3,036.4	xx	xx	xx
Total Primary Government	\$ 33,827.5	xx	xx	xx
Component Units:				
Virginia Housing Development Authority	\$ 657.9	xx	xx	xx
Virginia Public School Authority	168.6	xx	xx	xx
Higher Education (Major & Non-major):	10,800.9	xx	xx	xx
Other Non-major	838.6	xx	xx	xx
Total Component Units	\$ 12,466.0	xx	xx	xx

Footnotes

a The U.S. Department of the Treasury, Citizen's Guide to the 2010 Financial Report of the United States Government.

www.fms.treas.gov/frsummary/index.html

b The Commonwealth of Virginia Comprehensive Annual Financial Report (CAFR) FY2010, issued by the Department of Accounts.

www.doa.virginia.gov/Financial_Reporting/CAFR/CAFR_Main.cfm

c The Commonwealth of Virginia Single Audit Report, FY2005-2010, issued by the Auditor of Public Accounts, which includes an opinion on the Commonwealth's compliance with federal regulations.

www.apa.virginia.gov

d The U.S. Census, Governments Division, Federal Programs Branch, Consolidated Federal Funds Report (CFFR), FY2004-2009.

harvester.census.gov/cffr/index.html

e The U.S. Department of Defense, 2010 Base Structure Report.

www.acq.osd.mil/ie/download/bsr/BSR2010Baseline.pdf

f Military square footage is found within the 2008-2010 D.O.D Base Structure Report^e. Civilian building square footage is found within the U.S. General Service Administration's Inventory of Owned and Leased Buildings Database.

www.iolp.gsa.gov/iolp/StateDetail.asp?slD=51

g Direct federal grants to localities is found at The U.S. Census Bureau, Governments Division, Finance Branch, State and Local Governments, Individual Unit File, FY 2008. www.census.gov/govs/estimate. Direct federal dollars expended by the Commonwealth is found within the 2010 CAFR^b. Both Federal purchases from businesses and federal payments to individuals are found within the 2009 U.S. Census CFFR^d.

SPECIAL REPORT PREPARATION GUIDANCE

Information presented within the illustrative special report was obtained directly from public information sources, primarily publications issued by the U.S. Departments of the Treasury, General Services, and Defense, and the U.S. Census Bureau. A compilation of sources from the audited financial reports of the Commonwealth of Virginia were also used in preparing the illustrative special report. Accordingly, representatives from the Commonwealth of Virginia did not participate in the preparation of this Special Report.

Within the illustrative special report, endnotes are utilized to provide the user with the exact data source utilized, including a link to the originating website. The purpose of this preparation guidance section is to showcase selected instances where simply following the endnote source and obtaining a report may not be sufficient.

In the illustrative special report, Chart 4 and Chart 5 both originate from the online query database of the Consolidated Federal Funds Report issued by the U.S. Census Bureau. Chart 4, payments to individuals, is comprised of the following database category headings 1) Retirement and Disability, 2) Salaries and Wages, and 3) Other Direct Payments. Chart 5, purchases from businesses, is comprised of only one database category heading, Procurement Contracts.

Chart 6 contains information from the Department of Defense Base Structure Report, which is published annually and is one year behind the current fiscal year end. Also, the location of the report online has changed over the years and is not stored in one central location. For example, 2009 and 2008 reports are located directly at www.defense.gov, whereas the 2010 report is in a new location noted in the end note. All reports can be found by a simple search engine inquiry. Also, Chart 6 shows the civilian square footage of buildings produced by the General Services Administration (GSA) through its inventory of owned and leased buildings. This inventory is dynamic, and when queried, produces information as of the date of inquiry. Thus, it is essential to request assistance from the GSA in order to compile historical year-end square footage data.

Appendix A presents a pro-forma illustration of how the current presentation of the Government-wide Statement of Activities could be shown to provide the reader with an understanding of how the changes in revenues from the federal government impact a state government. In order to successfully break out the federal portion of revenues and expenditures, it will take either an adjustment or modification of the state government record keeping systems. Also, this information can ultimately be presented within the Comprehensive Annual Financial Report either on the face of the financial statements, or as a note. Such presentation would be consistent with allowable practice under which government financial report preparers may expand information reported beyond the minimum reporting requirements established by current generally accepted accounting principles.

For additional guidance on how to obtain data illustrated above, please reference the preparation guidance section within the three-volume report titled "Intergovernmental Financial Dependency and Related Risks," 2009.

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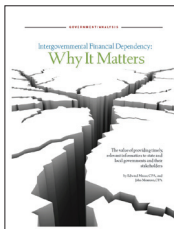
OTHER AVAILABLE IFD RESOURCES



Intergovernmental Financial Dependency: A Study of Key Dependency Measures for the 50 States

By Edward J. Mazur and Taylor R. Powell

www.cliftonlarsonallen.com/IFD50statestudy



Intergovernmental Financial Dependency: Why It Matters

By Edward J. Mazur and John B. Montoro, AICPA Journal of Accountancy, October 2011

www.journalofaccountancy.com/Issues/2011/Oct/20114206



Our Nation's Governors — Walking a Tightrope Without a Net

By Edward J. Mazur, AGA Journal of Government Financial Management, Summer 2011

www.cliftonlarsonallen.com/walkingatightrope



Intergovernmental Financial Dependency and Related Risks — Proposed Reporting by State and Local Governments

By Edward J. Mazur

www.cliftonlarsonallen.com/intergovernmentalreport

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