

Authoritative Literature/Guidance for Preparation of GAAP Basis Fund Financial Statement Templates

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Authoritative Literature/Guidance for Preparation of GAAP Basis Fund Financial Statement Templates

GASB Statements

Introduction

This section lists important GASB Statements which provide guidance on preparation of GAAP Basis Financial Statements. For additional information, refer to the non-authoritative **GAAP Master List** which is located on DOA's website at www.doa.virginia.gov. Click on the "Financial Statement Directives" link.

Questions

If there are questions regarding the implementation of any GASB Statement, contact the following:

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[GASBS No. 28](#)

For those agencies that must submit GAAP basis financial statement templates, **DOA will provide** asset, liability, income, and expense amounts for the agencies' share of securities lending transactions, **if any**, held in the General Account of the Commonwealth. This information will be provided in a separate document.

[GASBS No. 33](#) [and GASBS No. 36](#)

Nonexchange transactions must be reported in accordance with **GASBS No. 33** and **GASBS No. 36** (see also **GASBS No. 33 – Nonexchange Transactions Overview** section in this document).

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GASB Statements, Continued

[GASBS No. 34/GASBS No. 37/Interpretation No. 6](#)

GASBS No. 34, **GASBS No. 37**, and **GASB Interpretation No. 6** establish significant revisions to the financial reporting model (see also [GASBS No. 34 – Financial Reporting Model Overview](#) section in this document).

[GASBS No. 39](#)

GASBS No. 39, *Determining Whether Certain Organizations Are Component Units*, amends **GASBS No. 14**, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. **GASBS No. 39** also provides reporting requirements for such organizations.

[GASBS No. 40](#)

GASBS No. 40, *Deposit and Investment Risk Disclosures*, amends **GASBS No. 3** by updating the custodial credit risk disclosure requirements and by establishing more comprehensive disclosure requirements for other common risks of deposits and investments.

[GASBS No. 42](#)

GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires evaluation of events and circumstances that might impair the value of capital assets. It also provides guidance on reporting permanently impaired capital assets and certain insurance recoveries.

[GASBS No. 43](#)

GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes uniform financial reporting standards for OPEB plans.

[GASBS No. 44](#)

GASBS No. 44, *Economic Condition Reporting: The Statistical Section*, modifies the reporting guidelines for the Statistical Section in the CAFR.

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GASB Statements, Continued

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- GASBS No. 45** **GASBS No. 45**, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.
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- GASBS No. 46** **GASBS No. 46**, *Net Assets Restricted by Enabling Legislation*, provides additional clarification and reporting guidance on net assets that are restricted as a result of enabling legislation.
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- GASBS No. 47** **GASBS No. 47**, *Accounting for Termination Benefits*, provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are terminated.
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- GASBS No. 48** **GASBS No. 48**, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, requires a transaction in which a government receives or is entitled to resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues to be reported as a collateralized borrowing resulting in a liability rather than as a sale unless the specific criteria for reporting as a sale are met. Also, this statement requires governments to report transfers, purchases, or donations of capital assets or financial assets within a financial reporting entity at the carrying value at the time of transfer.
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- GASBS No. 49** **GASBS No. 49**, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. Refer to the on-line training available in the **Comptroller’s Directive Team Room** in the **Knowledge Center** at: <https://covkc.virginia.gov>. Click on the “Team Center” link and then click the “Team Rooms” link. Search using the keyword “Directive” and click on the “DOA Comptroller’s Directive” link. Click the “Contents” link under “Options” and finally click the course reference link.
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GASB Statements, Continued

[GASBS No. 50](#) **[GASBS No. 50](#)**, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

[GASBS No. 51](#) **[GASBS No. 51](#)**, *Accounting and Financial Reporting for Intangible Assets*, requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. **[GASBS No. 51](#)** should be applied in addition to the existing authoritative guidance for capital assets. Refer to CAPP Topic 30325, *Software and Other Intangible Assets*, the **[GASBS No. 51– Accounting and Financial Reporting for Intangible Assets Overview](#)** section, and the **[GASBS No. 51 Frequently Asked Questions](#)** for additional information.

[GASBS No. 52](#) **[GASBS No. 52](#)**, *Land and Other Real Estate Held as Investments by Endowments*, establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities.

[GASBS No. 53](#) **[GASBS No. 53](#)**, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments.

[GASBS No. 54](#) **[GASBS No. 54](#)**, *Fund Balance Reporting and Governmental Fund Type Definitions*, enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of **[GASBS No. 54](#)** are effective for fiscal year 2011 and thereafter. Refer to the on-line training available in the **Comptroller’s Directive Team Room** in the **Knowledge Center** at: **<https://covkc.virginia.gov>**. Click on the “Team Center” link and then click the “Team Rooms” link. Search using the keyword “Directive” and click on the “DOA Comptroller’s Directive” link. Click the “Contents” link under “Options” and finally click the course reference link.

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GASB Statements, Continued

GASBS No. 55 **GASBS No. 55**, *The Hierarchy of Generally Accepted Accounting Principles*, incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Board's (GASB) authoritative literature.

GASBS No. 56 **GASBS No. 56**, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events.

GASBS No. 57 **GASBS No. 57**, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

GASBS No. 58 **GASBS No. 58**, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. .

GASBS No. 59 **GASBS No. 59**, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The requirements of **GASBS No. 59** are effective for fiscal year 2011 and thereafter.

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GASB Statements, Continued

GASBS No. 60 **GASBS No. 60**, *Accounting and Financial Reporting for Service Concession Arrangements*, addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The requirements of **GASBS No. 60** are effective for fiscal year 2013 and thereafter.

GASBS No. 61 **GASBS No. 61**, *The Financial Reporting Entity: Omnibus*, amends **GASBS No. 14** and **GASBS No. 34**, to modify certain requirements for inclusion of component units in the financial reporting entity, to amend the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations. The requirements of **GASBS No. 61** are effective for fiscal year 2013 and thereafter.

GASBS No. 62 **GASBS No. 62**, *Codification of Accounting and Financial Reporting Guidance*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of **GASBS No. 62** are effective for fiscal year 2013 and thereafter.

Note: The following GASB Statement Overviews are provided for informational purposes and are not authoritative.

[GASBS No. 33 – Nonexchange Transactions Overview](#)

Definition of nonexchange transactions

Nonexchange transactions are those transactions where a government gives (or receives) value **without** directly receiving (or giving) equal value in return. **GASBS No. 33**, *Accounting and Financial Reporting for Nonexchange Transactions*, and **GASBS No. 36**, *Recipient Reporting for Certain Shared Nonexchange Revenues*, provide guidance on reporting nonexchange transactions. The four types of nonexchange transactions are as follows:

Derived Tax Revenues – assessments imposed by governments on exchange transactions.

Imposed Nonexchange Transactions – assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions.

Government-mandated Nonexchange Transactions – a government at one level provides resources to a government at another level and requires that government to use the resources for a specific purpose or purposes established by the provider’s enabling legislation.

Voluntary Nonexchange Transactions – result from legislative or contractual agreements, other than exchanges, entered into willingly by two parties.

Derived tax revenue – recognition requirements

Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption

Asset Recognition:

Period when underlying exchange has occurred or when resources are received, whichever is first.

Revenue Recognition:

Period when underlying exchange has occurred. (Report advance receipts as unearned revenues.) When modified accrual accounting is used, resources also should be available.

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GASBS No. 33 – Nonexchange Transactions Overview, Continued

Imposed nonexchange transactions – recognition requirements

Examples: property taxes, most fines and forfeitures

Asset Recognition:

Period when an enforceable legal claim has arisen or when resources are received, whichever is first.

Revenue Recognition:

Period when resources are required to be used or first period that use is permitted. When modified accrual accounting is used, resources also should be available.

Government-mandated/voluntary nonexchange transactions – recognition requirements

Examples: government-mandated nonexchange transactions – federal government mandates on state and local governments/voluntary nonexchange transactions – certain grants and entitlements, most donations

Asset and Liability Recognition:

Period when all eligibility requirements have been met or (for asset recognition) when resources are received, whichever is first.

Revenue and Expense/Expenditure Recognition:

Period when all eligibility requirements have been met. (Report advance receipts or payments for use in the following period as unearned revenues or advances, respectively.) When modified accrual accounting is used for revenue recognition, resources also should be available.

Note: Eligibility requirements are discussed on the following page.

Overall recognition requirements

Revenue transactions that do not meet the revenue recognition requirements in **GASBS No. 33** and **GASBS No. 36** must be reclassified as unearned revenue. Expense/expenditure transactions that do not meet the expense/expenditure recognition requirements in **GASBS No. 33** must be reclassified as an advance. That is, until those requirements are met, the provider does not have a liability or recognize an expense/expenditure.

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GASBS No. 33 – Nonexchange Transactions Overview, Continued

Eligibility requirements

The eligibility requirements are conditions established by enabling legislation or by the provider that must be met before a **nonexchange** transaction can occur. The eligibility requirements are:

- Required characteristics of recipients: The recipient has the characteristics specified by the provider. (For example: Under a certain federal program, recipients are required to be states & secondary recipients are required to be school districts.)
- Time requirements: Time requirements specified by enabling legislation or by the provider have been met. (For example: The period when the resources are required to be used, or when use may begin.)
- Reimbursements: The provider offers resources on a reimbursement (expenditure driven) basis, and the recipient has incurred allowable costs under the applicable program.
- Contingencies (applies only to voluntary nonexchange transactions): The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

Footnote disclosure

GASBS No. 33, paragraph 11 states that under either basis of accounting (modified accrual or accrual), recognition of transactions is only required if the transactions are measurable (reasonably estimable) and probable of collection. **GASBS No. 33 requires footnote disclosure of transactions that are not recognizable because they are not measurable.**

If applicable, agencies that are required to submit financial statement templates must disclose this information.

If applicable, agencies not required to submit financial statement templates on certain funds must provide this disclosure to DOA on **Attachment 16, GASBS No. 33 Expenditure and Revenue Analysis.**

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GASBS No. 33 – Nonexchange Transactions Overview, Continued

Obtaining information from agencies

GASBS No. 33 and GASBS No. 36 requirements must be followed when preparing GAAP basis financial statement templates (Attachments 9-13), supplemental information, and other attachments.

The following attachments are to obtain **GASBS No. 33** and **GASBS No. 36** information on funds not included in financial statement templates:

- **Attachment 16, GASBS No. 33 Expenditure and Revenue Analysis**
- **Attachment 26, GASBS No. 33 Federal Fund Analysis – Non-reimbursement Grants**

Agencies should refer to GASB statements for additional guidance and examples of nonexchange transactions and eligibility requirements.

GASBS No. 34 – Financial Reporting Model Overview

Background

GASBS No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, modified the financial reporting requirements for governmental entities. **GASB Interpretation No. 6**, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. **GASBS No. 37**, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, clarifies certain provisions in **GASBS No. 34**.

For additional guidance regarding **GASBS No. 34**, refer to the most current Comprehensive Implementation Guide –Guides issued through June 30, 2010, issued by GASB and the Comprehensive Implementation Guide Supplement located on GASB’s website at

<http://www.gasb.org/jsp/GASB/Page/GASBHomePage&cid=1175804792590>

Resources

Resources can be accessed as follows:

Resource	Source
GASB Statements and related Implementation Guides	www.gasb.org
<i>Governmental Accounting, Auditing, and Financial Reporting 2005 Edition – Using the GASB 34 Model</i>	www.gfoa.org

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Requirements Each agency must follow **GASBS No. 34, GASBS No. 37, GASB Interpretation No. 6, and the Implementation Guides** when preparing the GAAP Basis financial statement templates, other attachments, and/or supplemental information.

Any reference to GASBS No. 34 in this section means GASBS No. 34, GASBS No. 37, GASB Interpretation No. 6, and the Implementation Guides.

The following sections provide some of the **GASBS No. 34** requirements. This is **not a complete listing**.

The following is a listing of minimum requirements for the CAFR and/or agency published financial statements:

- Management Discussion and Analysis
- Basic Financial Statements:
 - Government-wide financial statements (governmental funds only)
 - Fund financial statements
 - Reconciliation between government-wide and fund financial statements
 - Notes to the financial statements
- Required Supplemental Information

Note: DOA will obtain the aforementioned requirements through financial statement templates (**Attachments 9-13**), other attachments, and supplemental information submissions.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Requirements, Continued

- The statement requires the addition of the Management Discussion and Analysis section. (**Note:** For CAFR reporting requirements, DOA will obtain this information from selected agencies in a separate communication.)
- The statement requires a Government-wide Statement of Net Assets and Statement of Activities. These statements are on the economic resources measurement focus and full accrual basis of accounting. The fund statements for governmental funds are on a current resources measurement focus and modified accrual basis of accounting. The government-wide and fund statements must be reconciled.
- Government-wide Statement of Net Assets and Proprietary Fund Statement of Net Assets have the following net asset line items: Invested in Capital Assets, Net of Related Debt; Restricted (by description); and Unrestricted.
- Government-wide Statement of Activities has different revenue classifications than the fund statements.
- All infrastructure assets must be reported in the agency's financial statements.

It is recommended that agencies read GASBS No. 34, GASBS No. 37, GASB Interpretation No. 6, and the Implementation Guides before preparing financial statement templates.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Funds

DOA analyzes and determines the reporting classifications for all CAFR funds. **DOA will contact agencies for assistance to determine the proper fund classifications for new funds.** Refer to **GASBS No. 34** for definitions of each fund. Below is a listing of the funds:

Governmental Funds:

- General
- Special Revenue
- Capital Projects
- Debt Service
- Permanent

Proprietary Funds:

- Enterprise
- Internal Service

Fiduciary Funds:

- Pension and Other Employment Benefit Trust
- Investment Trust
- Private-purpose Trust
- Agency

Note: Activity related to long-term debt and capital assets for governmental funds is reported in the Government-wide Statement of Net Assets and Statement of Activities under the full accrual basis of accounting and economic resources measurement focus.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Fund financial statements

Governmental fund statements are presented on the modified accrual basis of accounting/current resources measurement focus and include a

- Balance Sheet, and
- Statement of Revenues, Expenditures, and Changes in Fund Balance.

Proprietary fund statements are presented on the full accrual basis of accounting/economic resources measurement focus and include a

- Statement of Net Assets,
- Statement of Revenues, Expenses, and Changes in Fund Net Assets, and
- Statement of Cash Flows (Direct method).

Fiduciary fund statements are presented on the full accrual basis of accounting/economic resources measurement focus and include a

- Statement of Fiduciary Net Assets, and
 - Statement of Changes in Fiduciary Net Assets.
-

Government-wide financial statements

The government-wide financial statements are reported using the full accrual basis of accounting/economic resources measurement focus and present aggregate totals for the governmental funds and business-type activities (proprietary funds) in separate columns. These columns are then added to provide a primary government total. The government-wide financial statements include two separate statements.

- Statement of Net Assets (similar to a balance sheet)
- Statement of Activities (similar to an operating statement)

The 2005 GAAFR includes examples of how to convert the fund statements to the government-wide financial statements.

GASBS No. 34 also requires the following reconciliations:

- Reconciliation between the fund balance on the Balance Sheet and the Net Assets of governmental activities on the Statement of Net Assets
 - Reconciliation between the total change in governmental fund balances and the change in net assets of governmental activities on the Statement of Activities
-

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Converting entries

Below are a few examples of entries needed to convert governmental fund modified accrual basis statements to government-wide full accrual basis statements. **This is not a complete listing of all conversion entries needed.**

- Capital assets and long-term liabilities must be reported on the government-wide statements.
- Expenditures to acquire capitalized fixed assets must be recorded as a debit to capital assets rather than to expenditures.
- Gain/loss on the sale of capital assets must be recorded.
- Depreciation expense on capital assets must be recorded on the government-wide statements.
- Receivables as of June 30 on the fund statements and government-wide statements are equivalent; however, the receivables to be received after August 31 must be reported as revenue on the government-wide statements and as deferred revenue on the fund statements.
- Revenue must be reported as general revenue or program revenue by function rather than by revenue class.

As noted on the previous page, the 2005 GAAFR provides examples of converting the fund statements to government-wide statements.

Agencies not required to prepare financial statement templates (Attachments 9-13) will provide various attachments and/or supplemental information necessary for DOA to convert to the government-wide financial statements.

Exceptions to government-wide financial statements

Fiduciary fund activity is **not** reported in the government-wide financial statements. This information is only reported in the fund financial statements.

Governmental and enterprise funds' government-wide financial information is obtained from the financial statement templates, other attachments, and supplemental information. Internal service fund government-wide statement information is obtained from Internal Service Funds – Conversion to Government-wide Statement of Activities.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Calculation of material funds for governmental and proprietary funds

The focus of governmental and proprietary fund financial statements is on major funds. Fund statements should be presented with each major fund in a separate column. Nonmajor funds should be aggregated in a single column. **GASBS No. 34** does not require combining statements for nonmajor funds; however, the Commonwealth will reflect combining statements as required for CAFR reporting. Accordingly, each agency preparing financial statement templates **must not** aggregate nonmajor CAFR reporting funds into a single financial statement template. In order to provide uniformity among state and local governments, the GASB requires that the General Fund always be considered a major fund. The statement also requires that other governmental or enterprise funds meeting the following criteria be considered major funds.

- Total assets, liabilities, revenues OR expenditures/expenses of the individual fund $\geq 10\%$ of the corresponding total (assets, liabilities, etc.) for all funds of that category (i.e., total governmental OR enterprise funds)

AND

- Total assets, liabilities, revenues OR expenditures/expenses of the individual fund $\geq 5\%$ of the corresponding total for ALL governmental and enterprise funds combined

Note: When determining whether the 10% and 5% criteria have been met, the analysis should compare the same financial statement grouping (i.e., assets, liabilities, revenues, or expenditures/expenses) for both criteria. The statement also allows management to report funds not meeting the above criteria as major funds *if* management believes that those funds are particularly important to the financial statements.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Statement of Net Assets – overview

Assets and liabilities must be in order of relative liquidity or presented in a classified format to identify current (converted to cash within one year/due within one year) and noncurrent assets and liabilities (converted to cash in greater than one year/due in greater than one year). If the classified format is not used, liabilities with average maturities greater than one year must be reported separately as amounts due within one year and amounts due in greater than one year. **Proprietary funds must use the classified format.**

Cash and cash equivalents (original maturity of 90 days or less) must be reported separately from investments (original maturity of greater than 90 days). Distinguish between Cash and Cash Equivalents with the Treasurer, Cash and Cash Equivalents not with the Treasurer, Investments with the Treasurer, and Investments not with the Treasurer.

Depreciable and nondepreciable capital assets must be reported on separate line items. This does not apply to the Balance Sheet for Governmental Funds because capital assets are not reported on those statements. Capital Assets are only reported in the Government-wide Statement of Net Assets for Governmental Funds.

For the Statement of Net Assets, the fund balance/ retained earnings and contributed capital are called net assets under **GASBS No. 34** and must be displayed in three broad components:

- 1. Invested in capital assets, net of related debt**
- 2. Restricted (including a description of each type of restriction)**
- 3. Unrestricted**

The following sections provide definitions of Invested in Capital Assets, Net of Related Debt, and Restricted Net Assets. **Unrestricted** net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Statement of Net Assets – Invested in Capital Assets, Net of Related Debt

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding debt (balances of any bonds, mortgages, notes, or other **borrowings**) that are attributable to the acquisition, construction, or improvement of those assets. It also includes the unspent proceeds on this debt that is related to the capital assets (**Note A**). It does not include investment earnings on those unspent proceeds which would most likely be reported on one of the restricted net asset line items. This component does not include accounts payable related to capital assets because an accounts payable is not considered a borrowing.

Note A: If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net asset component as the unspent proceeds - for example, restricted for capital projects.

Statement of Net Assets – Restricted Net Assets

Restricted net assets should be reported as restricted, including a description of the restriction, when constraints placed on net asset use are either:

- externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- imposed by law through constitutional provisions or enabling legislation.

In the Comprehensive Implementation Guide issued by GASB in 2010, question 7.24.1 states the following: “The basic concept is that restrictions are not unilaterally established by the reporting government itself and cannot be removed without the consent of those imposing the restrictions or through formal due process.” **Any resources that are classified as program revenue – operating or capital grants & contributions are restricted.**

If restricted net assets include amounts related to permanent endowments or permanent fund principal, the expendable and nonexpendable components must be reported separately.

- See **GASBS No. 34** for further guidance on restricted net assets.

DOA will contact agencies, as needed, to obtain information to appropriately report restrictions in the CAFR.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Statement of Activities – revenue classification

GASBS No. 34 requires revenue to be classified as one of the following on the Government-wide Statement of Activities:

- General Revenue
- Contributions to Term and Permanent Endowments and Contributions to Permanent Fund Principal
- Program Revenue – Charges for Goods/Services
- Program Revenue – Operating Grants and Contributions
- Program Revenue – Capital Grants and Contributions

Program revenue must also be classified by expenditure function.

Statement of Activities – expenditure functions for program revenue

GASBS No. 34 requires that program revenues be presented as a reduction of the total expense of the benefiting function; therefore, expenditure functions (general government, education, resources & economic development, etc.) must be assigned to revenues. For **charges for services**, this is the function that generates the revenue. For **grants and contributions**, this is the function to which the revenues are restricted.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Statement of Activities – General Revenue

All revenues are general revenues unless the revenues are required to be reported as program revenues. General revenues consist of the following categories:

- Taxes (source codes 01xxx)
- Investment Earnings *
- Grants & Contributions Not Restricted to Specific Programs
- Miscellaneous

All taxes, even those that are levied for a specific purpose (for example, sales tax, property tax, franchise tax, income tax) are general revenues. All other non-tax revenues (including interest, grants and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues.

***Note:** If not restricted for a specific program.

Statement of Activities – Contributions to Term and Permanent Endowments

Contributions to term and permanent endowments and contributions to permanent fund principal must be reported as a separate revenue line item. Permanent endowment and permanent fund principal are not expendable. Term endowment and principal are not expendable until after a specified time period or after a designated event.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Statement of Activities – Program Revenue

The following are descriptions of the classifications of program revenue:

- **Charges for Goods/Services** – include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use or directly benefit from the goods, services, or privileges provided or are otherwise directly affected by the services. **Source codes 02xxx – Rights & Privileges, 03xxx – Sales of Property, 05xxx – Assessments, and 08xxx – Fines, Fees & Forfeitures should be classified as Charges for Goods/Services. These are not the only source codes that may be classified as charges for goods/services.**
- **Operating Grants and Contributions** – include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the reporting government should be reported as Operating Grants and Contributions.
- **Capital Grants and Contributions** – include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes (to purchase, construct, or renovate capital assets associated with a specific program). These items should be reported as Capital Grants and Contributions.

Multipurpose Grants (grants that provide financing for more than one program) – should be reported as program revenue if the amounts restricted to each program are specifically identified in either the grant award or the grant application. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as General Revenues.

Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a program specifically identified in the endowment or permanent fund agreement or contract. However, these earnings should be reported as General Revenue if the earnings are used to finance general operating expenses. Earnings on investments not held by permanent funds also may be legally restricted to specific functions or programs. For example, interest earnings on State grants may be required to be used to support a specific program.

Continued on next page

GASBS No. 34 – Financial Reporting Model Overview, Continued

Government-wide revenue classifications for funds not included in financial statement templates

DOA has analyzed revenue source codes not included in agency prepared financial statement templates for fiscal year 2011 based on CARS activity and communication with selected agencies. Agencies not required to prepare financial statement templates must refer to the **GASBS No. 34 Government-wide Revenue Classification Table** on DOA’s website at **www.doa.virginia.gov**. Click on the “Financial Statement Directives” link. Agencies can look up an agency, fund/fund detail, and source code to obtain the proper **GASBS No. 34** government-wide revenue classification to record on attachments and/or supplemental information. For any new revenue source codes, DOA will contact agencies to determine the proper classifications. **Note: This table will be available in mid-July 2011.**

Fund financial statements – overview

GASBS No. 34 did **not** significantly change the fund statements. Some of the changes are explained in the following sections.

Balance Sheet/ Statement of Net Assets – all funds

GASBS No. 34 requires that cash and cash equivalents be reported on a separate line item from investments.

Continued on next page

GASBS No. 34 – Financial Reporting Model Overview, Continued

Fund financial statements – proprietary funds

- Statement of Net Assets must be prepared in the **classified format**.
- For the Statement of Net Assets, the retained earnings and contributed capital are components of net assets and must be displayed as follows: Invested in Capital Assets Net of Related Debt, Restricted (including a description), and Unrestricted. **In some cases, this reporting will result in a negative net asset unrestricted balance.** See the following example for reporting total net assets (formerly retained earnings/contributed capital) of \$1,000,000:

Invested in Capital Assets, Net of Related Debt	\$2,500,000
Restricted Net Assets,	0
Unrestricted Net Assets	(\$1,500,000)
Total Net Assets	<u>\$1,000,000</u>

- Current year contributed capital activity should be reported in the nonoperating section of the Statement of Revenues, Expenses, and Changes in Fund Net Assets.
- The Cash Flows from Operating Activities section of the Statement of Cash Flows should include the following two line items for reciprocal interfund services provided and used activity:

Internal Activity – Payments to Other Funds
Internal Activity – Payments from Other Funds

- For Internal Service Funds only – financial statement templates must be prepared in **GASBS No. 34** format for gross amounts before internal activity and balances can be eliminated by DOA. **GASBS No. 34** states that internal activity and balances should be eliminated from the Government-wide Statement of Activities. This elimination removes the doubling up effect of reporting the original disbursement activity in the paying funds and in the internal service fund. An attachment is provided to eliminate the internal activity and convert amounts to the Government-wide Statement of Activities.

Continued on next page

GASBS No. 34 – Financial Reporting Model Overview, Continued

Fund financial statements – fiduciary funds

- All fiduciary funds must be reported on the full accrual basis of accounting and the economic resources measurement focus.
 - Investments must be provided by investment type (i.e., bonds, stocks, etc.) on the Statement of Fiduciary Net Assets.
-

Additional information

See also the **Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates** section in this document.

Management Discussion and Analysis

General information will be obtained from the fluctuation analysis and supplemental communications questionnaires from selected agencies.

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview

Purpose

GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires evaluation of events and circumstances that might impair the value of capital assets and how this activity should be reported and disclosed. **GASBS No. 42** defines “impairment” as an unexpected and significant decline in service utility of a capital asset. It also provides guidance on all insurance recoveries except for pollution remediation* even those not related to impaired capital assets (i.e. embezzlements, thefts). Agencies that may have impaired capital assets must read and understand the requirements of **GASBS No. 42**.

***Note:** **GASBS No. 42** was issued prior to **GASBS No. 49**, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Insurance recoveries for pollution remediation outlays must be reported in accordance with **GASBS No. 49**.

Note: Refer to the **GASBS No. 51 – Accounting and Financial Reporting for Intangible Assets Overview** section for information regarding intangible assets.

Identify potential impairment

A determination must first be made as to whether an agency has a possible impairment of a capital asset. Some indicators of impairment are as follows:

- physical damage
- enactment or approval of laws, regulations, or other changes in environmental factors
- technical development or evidence of obsolescence
- change in manner or expected duration of a capital asset’s use
- construction stoppage

The events or circumstances that could indicate an impairment would be prominent and known to the government.

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Impairment test

Once a potential impairment has been identified, the following two factors must be met for a capital asset to be considered impaired:

- The magnitude of the decline in service utility is significant.
- The decline in service utility is unexpected.

Only assets that are significant to a fund should be tested for potential impairment. For Governmental type entities “significant” is defined as a decline of \$1,000,000 for all asset categories. Proprietary-type agencies should use professional judgment to determine what is “significant.” Impairment losses recognized in accordance with this policy should not be reversed in a future year, even if events or circumstances that caused the impairment have changed.

Note: If a capital asset does not meet the requirements of this impairment test, the remaining useful life and salvage value may need to be reevaluated and changed on a prospective basis.

Impairment loss

Impairment Loss Amount for Permanently Impaired Capital Assets:

Permanently impaired capital assets that will **continue to be used** by the agency must be written down to properly reflect the decline in service utility using one of the following methods: restoration cost approach, service units approach, or deflated depreciated replacement cost approach.

Permanently impaired capital assets that **will no longer be used** by the agency and construction stoppage must be reported at the lower of carrying value or fair value.

Note: Generally, an impairment should be considered permanent; however, in some cases it may be considered temporary. If it is considered temporary, the capital asset should not be written down.

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Reporting of impairment loss

An impairment loss that took place during the current fiscal year must be reported as follows:

- Statement of Activities (business-type & governmental government-wide financial statements): program expense, special item, or extraordinary item
- Statement of Revenues, Expenses, and Changes in Fund Net Assets (proprietary funds): Nonoperating-gain (loss) on sale/disposal/impairment of capital assets, special item, or extraordinary item

If the impairment loss took place in prior years and was not previously recognized, beginning net assets should be restated.

Also, per **GASBS No. 42**, paragraph 21, if insurance recoveries are recognized in the same year as the impairment loss, the impairment loss should be reported net of the associated insurance recovery. Per **GASBS No. 42**, paragraph 17 footnote 6, this guidance also applies to insured impairments that result in an accounting gain.

Disclosure of impairment loss

A description of the impairment loss, financial statement line item, and amount must be disclosed, if not apparent from the face of the financial statements.

Disclosure of impaired capital assets – idle at year-end

The carrying amount of any permanently or temporarily impaired capital assets that are idle as of year-end must be disclosed.

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Reporting of insurance recoveries

All insurance recoveries related to impaired capital assets and any other insurance recoveries (i.e. embezzlement, theft, etc.), excluding pollution remediation related recoveries, should be reported as follows:

- Governmental Fund Financial Statements - other financing source-insurance recoveries or extraordinary item

Insurance recoveries for capital assets impaired in prior years and other insurance recoveries (i.e. embezzlement, theft, etc.) not related to impaired capital assets or pollution remediation should be reported as follows:

- Government-wide Financial Statements (business-type & governmental) - program revenues or extraordinary item
- Statement of Revenues, Expenses, and Changes in Fund Net Assets (proprietary funds) - nonoperating revenue-insurance recoveries or extraordinary item

Note: As previously discussed, the impairment loss for capital assets impaired in the current year must be reported net of current year insurance recoveries.

Disclosure of insurance recoveries

The amount and financial statement line item of insurance recoveries must be disclosed if not apparent from the face of the financial statements.

Flowchart for impairment disclosure

Refer to **GASBS No. 42** for a flowchart that will help determine asset impairment.

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Measuring the Impairment of Capital Assets

Asset no longer used and construction stoppage

If the impaired capital asset will no longer be used, the asset should be written down to the lower of carrying value or fair value. Capital assets impaired from construction stoppage should also be written down to the lower of carrying or fair value. If the fair value exceeds the carrying value, it would not be appropriate to recognize a gain until the asset is sold or disposed. When the asset is sold or disposed it should be retired in the asset management system. If the carrying value exceeds the fair value, it would be appropriate to recognize a loss when the impairment event or change in circumstance occurs.

Asset will continue to be used

A description of the impairment loss, financial statement line item, and amount must be disclosed, if not apparent from the face of the financial statements. When a capital asset that will continue to be used is determined to be impaired, the amount of the impairment loss should be determined using one of the following measurement approaches:

- Restoration cost approach, which is generally used to measure impairment losses from physical damage such as from fire, wind, and the like.
- Service units approach, which is generally used to measure impairment losses from environmental factors, technological changes, obsolescence, or the change in the manner or duration of use.
- Deflated depreciated replacement cost approach, which can also be used to measure impairment losses from the change in the manner or duration of use.

Ultimately, the specific method to be used should be the one that best reflects the service utility decline. The method used to measure impairment losses should be applied consistently to impairments with similar characteristics. Refer to **GASBS No. 42** for a flowchart that will help determine which impairment method should be used and for additional guidance on how to apply each measurement methodology

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Replacement or repair costs of the impaired asset

If an impaired asset is being repaired, the repairs should be added as an improvement or as a new asset. If a new asset is being added to replace the old asset, the new asset should be added to asset management and the old asset retired in the same manner that you would add and retire any other asset. The new asset should be added in the same year that the replacement costs are incurred and the old asset should be retired in the year it is disposed.

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Instructions for Tab 3, Part 3.1 of Attachments 10 & 11

This part is to identify potential impairments as follows:

- A) **Possible Impairment of Capital Assets:** As of June 30, 2011, did this fund have an event* or change in circumstances* that may indicate an impairment of a capital asset as described in **GASBS No. 42**? If **yes**, provide a description, month/year it took place, the possible impaired capital assets, and then go to B. If **no**, proceed to the next financial statement footnote tab.

***Note:** This must be a prominent event or circumstance that is conspicuous or known to the agency. It is expected to have been discussed by the board, management, or media. Common indicators of impairment include the following:

- Physical damage (i.e. fire, flood)
- Enactment or approval of laws/regulations or other changes in environmental factors
- Technological development or evidence of obsolescence
- Change in the manner or expected duration of a capital asset
- Construction stoppages (i.e. lack of funding)

- B) **Impairment Test:** If **yes** to A, is the decline in service utility of the capital asset significant **and** unexpected? If **yes**, go to C. If **no**, proceed to the next financial statement footnote tab.

Note: If this test indicates an impairment has not occurred, the estimated useful life and salvage value may need to be reevaluated and changed. This should be accounted for on a prospective basis.

- C) **Permanent Impairment:** If **yes** to A and B, is the impairment considered permanent? If **yes**, go to D. If **no**, go to 3.2.

Note: Generally, an impairment should be considered permanent; however, in some cases it may be considered temporary. If it is considered temporary, the capital asset should not be written down. See **GASBS No. 42** for additional guidance.

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

**Instructions for
Tab 3, Part 3.1
of Attachments
10 & 11,
Continued**

D) **Financial Statement Template Reporting & Footnote Disclosure:** If **yes** to A, B, and C, has the impairment loss and related insurance recoveries (if applicable) been properly reported on the FST in accordance with **GASBS No. 42**? If **no**, provide an explanation. If **yes**, provide the impairment loss, insurance recoveries, and FST line item this activity is reported on.

Note: For **impaired capital assets that will continue to be used by the agency**, the impairment loss that should be written off should be measured by one of the following methods: restoration cost approach, service units approach, or deflated depreciation replacement cost approach. For **impaired capital assets that will no longer be used by the agency or capital assets impaired from construction stoppage**, they should be reported at the lower of carrying value or fair value.

Loss on capital assets that became permanently impaired during fiscal year 2011 must be reported on the financial statement template as nonoperating gain (loss) on sale/disposal/impairment of capital assets, extraordinary items, or special items. If the impairment loss took place in prior years and was not previously recognized, beginning net assets should be restated. Use professional judgment to determine the appropriate FST line item.

Also, per **GASBS No. 42**, paragraph 21, if insurance recoveries are in the same year as the impairment loss, the impairment loss should be reported net of the associated insurance recovery. Also, per **GASBS No. 42**, paragraph 17 - footnote 6, this guidance also applies to insured impairments that result in an accounting gain.

**Instructions for
Tab 3, Part 3.2
of Attachments
10 & 11**

Any permanently and/or temporarily impaired capital assets that are **idle** as of year-end must be disclosed. Provide the carrying amount of any permanently and/or temporarily impaired capital assets as of year-end.

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GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Instructions - Other Insurance Recoveries – Attachments 10 & 11

For any insurance recoveries that are not reported in Part 3.1 D and are not for pollution remediation, provide the amount, financial statement template line item, and a description on **Attachment 10 - Tab 7 – Miscellaneous**, Question 6 for the Enterprise Fund Financial Statement Template and on **Attachment 11 – TAB 7 – Miscellaneous**, Question 5 for the Internal Service Fund Financial Statement Template.

Note: This includes current year insurance recoveries for capital assets impaired in prior years. It also includes all other insurance recoveries (i.e. recoveries for embezzlement of cash, theft). These types of insurance recoveries should be reported on the financial statement template as nonoperating revenue – insurance recoveries or extraordinary item. On the conversion to the government-wide Statement of Activities, the nonoperating revenue – insurance recoveries should be reported as program revenues. Use professional judgment to determine the appropriate line item.

GASBS No. 49 provides guidance on how to report insurance recoveries for pollution remediation.

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Example Entries for Attachments 10 & 11

The examples below are for a building that was impaired because of a fire. The following examples do not include restoration or replacement costs which should be reported as a separate transaction from the impairment loss and associated insurance recovery.

	Impairment loss (prior year)	Impairment loss (current year)	Insurance Recovery (current year)	Net Gain/(Loss) on impairment (current year)
Example 1		(200,000)	150,000	(50,000)
Example 2		(200,000)	250,000	50,000
Example 3		(200,000)	0	(200,000)
Example 4	(200,000)	0	150,000	n/a

Below are example FST entries for the current year from the above examples:

Example 1:

Cash	150,000	
Extraordinary item (net loss) (see Note A)	50,000	
Accumulated depreciation-buildings		200,000

Example 2:

Cash	250,000	
Extraordinary item (net gain) (see Note B)		50,000
Accumulated depreciation-buildings		200,000

Example 3:

Extraordinary item (see Note A)	200,000	
Accumulated depreciation-buildings		200,000

Example 4:

Cash	150,000	
Extraordinary item (Note C)		150,000

Note: For example 4, since the insurance recovery was not recognized in the same year as the impairment loss, the insurance recovery is not netted with the impairment loss for the current year. Also, the \$200,000 impairment loss should have been recorded in the prior year. **These insurance recoveries are not reported on Tab 3 - Capital Assets; they should be reported on the Tab 7- Miscellaneous.**

Continued on next page

GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Example Entries for Attachments 10 & 11, Continued

Note A: Depending on the circumstances of the impairment, the other FST line items that this loss could be reported on are as follows:

- Nonoperating – Gain (loss) on Sale/Disposal/Impairment of Capital Assets
- Special Item

Note B: Depending on the circumstances of the impairment, the other FST line items that this gain could be reported on are as follows:

- Nonoperating – Gain (loss) on Sale/Disposal/Impairment of Capital Assets
- Special Item

Note C: Depending on the circumstances of the impairment, the other FST line item that this insurance recovery could be reported on is as follows:

- Nonoperating Revenues – Insurance Recoveries

As a reminder, per **GASBS No. 34** the definitions of extraordinary item and special items are as follows:

- Extraordinary item: Transactions or events that are **both** unusual in nature **and** infrequent in occurrence.
- Special item: Transactions or other events **within the control of management** that are either unusual in nature **or** infrequent in occurrence.

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GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Example Entries for Attachments 10 & 11, Continued

The following provides guidance on how to report the example entries on tab 3:

Example 1: Record on tab 3 Part 3.1 D as follows:

Financial Statement Template line item:	Impairment loss \$ (before netting with insurance recovery)	Insurance Recovery \$ included in the net impairment loss/gain calculation
Nonoperating – Gain (loss) on Sale/Disposal/Impairment of Capital Assets		
Special Item		
Extraordinary Item	-200,000	150,000

Example 2: Record on tab 3 Part 3.1 D as follows:

Financial Statement Template line item:	Impairment loss \$ (before netting with insurance recovery)	Insurance Recovery \$ included in the net impairment loss/gain calculation
Nonoperating – Gain (loss) on Sale/Disposal/Impairment of Capital Assets		
Special Item		
Extraordinary Item	-200,000	250,000

Example 3: Record on tab 3 Part 3.1D as follows:

Financial Statement Template line item:	Impairment loss \$ (before netting with insurance recovery)	Insurance Recovery \$ included in the net impairment loss/gain calculation
Nonoperating – Gain (loss) on Sale/Disposal/Impairment of Capital Assets		
Special Item		
Extraordinary Item	-200,000	

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GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries Overview, Continued

Example Entries for Attachments 10 & 11, Continued

Example 4: Record on tab 3 Part 3.1 D as follows:

Financial Statement Template line item:	Impairment loss \$ (before netting with insurance recovery)	Insurance Recovery \$ included in the net impairment loss/gain calculation
Nonoperating – Gain (loss) on Sale/Disposal/Impairment of Capital Assets	0	0
Special Item	0	0
Extraordinary Item	0*	0

* The \$200,000 impairment loss should have been recorded in the prior year.

Since the insurance recovery is not netted with the impairment loss, record on the applicable **Tab 7 - Miscellaneous**, Question 6 on **Attachment 10** or Question 5 on **Attachment 11** as follows:

Yes	Question 5 or 6	Are insurance recoveries reported on the financial statement template that are not already reported on Tab 3, Capital Assets, Part 3.1D and are not for pollution remediation?
Financial Statement Template line items:		\$ Amount
Nonoperating Revenue – Insurance Recoveries		0
Extraordinary Items		150,000

GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview

GASBS No. 49 requirement

GASBS No. 49 requires pollution remediation activities to be estimated and accrued as a liability when one of five obligating events occur. Under certain conditions, pollution remediation related expenditures should be capitalized when incurred.

Definitions

Per **GASBS No. 49**, paragraph 5, a **pollution remediation obligation** is defined as an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. **Pollution remediation activities include:** pre-cleanup activities, cleanup activities, external government oversight and enforcement-related activities, and operation and maintenance of the remedy (i.e., postremediation monitoring).

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GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Exceptions

Per **GASBS No. 49**, paragraph 4, this statement does not apply to the following:

- Landfill closure and post closure care obligations within the scope of **GASBS No. 18**.
- Future pollution remediation activities required upon the retirement of an asset (such as nuclear power plant decommissioning) during the periods preceding the retirement. However, this statement applies to those activities *at the time of the retirement* if obligating events are met and a liability has not been recorded previously.
- Recognition of asset impairments (see **GASBS No. 42**) or liability recognition for unpaid claims by insurance activities.
- Pollution prevention or control obligations with respect to current operations or fines, penalties, and other nonremediation outlays discussed in **GASBS No. 49**, paragraph 7.
- Accounting for nonexchange transactions such as brownfield redevelopment grants (see **GASBS No. 33**).

For additional information regarding applicability, pollution remediation obligations & activities, see **GASBS No. 49**, paragraphs 2 through 8.

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GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Obligating events

Per **GASBS No. 49**, paragraph 10a, once an obligating event occurs, the agency should determine whether one or more components of a pollution remediation obligation are recognizable as a liability.

Note: Per **GASBS No. 49**, paragraph 11, an obligating event is when any of the following events occurs:

- 1) The agency is compelled to take remediation action because pollution creates an imminent endangerment to public health or welfare or the environment, leaving it little or no discretion to avoid remediation action.
- 2) The agency is in violation of a pollution prevention-related permit or license, such as a Resource Conservation and Recovery Act permit or similar permits under state law.
- 3) The agency is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as an agency responsible for sharing costs.
- 4) The agency is named, or evidence indicates that it will be named, in a lawsuit that compels the agency to participate in remediation.
- 5) The agency commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should be based on the portion of the remediation project that the agency has initiated and is legally required to complete.

Continued on next page

GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Examples of outlays that should be considered

Pollution remediation outlays include all direct outlays attributable to pollution remediation activities (eg. payroll and benefits, equipment and facilities, materials, and other professional services) and may include estimated indirect outlays. Outlays related to natural resource damage (eg. revegetation outlays) are included only if incurred as part of a pollution remediation effort. Fines, penalties, safety outlays, and outlays not part of a pollution remediation effort should not be included. Agencies should report remediation information if they are the responsible party even if they expect to receive or have received reimbursement from another entity such as the federal government. Examples of pollution remediation include asbestos or lead based paint abatement from old buildings or clean-up related to leakage of underground fuel storage tanks or hazardous materials storage buildings.

Recognition benchmarks

Per **GASBS No. 49**, paragraph 10b, components of a liability should be recognized as they become reasonably estimable. This statement provides **benchmarks** for evaluating when various components become reasonably estimable. **GASBS No. 49**, paragraphs 12 and 13, provide additional information on recognition benchmarks.

Recognition benchmarks are as follows:

- receipt of an administrative order,
 - participation, as a responsible party or a potentially responsible party, in the site assessment or investigation,
 - completion of a corrective measures feasibility study,
 - issuance of an authorization to proceed, and/or
 - remediation design and implementation, through and including operation and maintenance, and postremediation monitoring.
-

Measurement

Per **GASBS No. 49**, paragraph 10c, measurement is based on the current value of outlays expected to be incurred. The components of the liability should be **measured** using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts – the estimated mean or average. **GASBS No. 49**, paragraphs 14 to 17, provides additional information on measurement.

Note: Per **GASBS No. 49**, paragraph 26, if pollution remediation liabilities, or portions thereof, are not yet recognized because they are not reasonably estimable, the agency should disclose a general description of the nature of the pollution remediation activities.

Continued on next page

GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Remeasurement

GASBS No. 49, paragraph 13, states that the dollar range of estimated remediation liability often will be defined and **periodically refined**, as necessary, as different stages in the remediation process occur. **GASBS No. 49**, paragraph 18, states that estimates of the pollution remediation liability **should be adjusted** when benchmarks are met or when new information indicates changes in estimated outlays are needed.

Expected recoveries

GASBS No. 49, paragraphs 19 to 20, provides guidance on how to account for recoveries. The reporting of expected recoveries from other responsible parties, potentially responsible parties, and insurance recoveries* that indemnify the agency for its pollution remediation obligations varies depending on the following:

- Expected recoveries are not yet realized or realizable
- Expected recoveries are realized or realizable

Per **GASBS No. 49**, paragraph 19a, if expected recoveries are not yet realized or realizable, they should reduce the measurement of the agency's pollution remediation liability. Per **GASBS No. 49**, paragraph 19b, if expected recoveries are realized or realizable, they should be recognized separately from the liability as recovery assets (i.e. cash or receivables). Per **GASBS No. 49**, paragraph 20, expected recoveries should be measured consistently with the related pollution remediation outlays (based on their current value and using the expected cash flow technique).

***Note:** **GASBS No. 42** provides reporting guidance on insurance recoveries; however, **GASBS No. 49** should be followed for reporting of insurance recoveries to indemnify the agency for pollution remediation obligations.

Continued on next page

GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Accounting for recoveries that become expected later

GASBS No. 49, paragraph 21, provides guidance on how to account for recoveries that become expected in periods after completion of remediation work such that the pollution remediation liability no longer exists. These recoveries would be reported as revenue* and cash or receivables when they are realized or realizable.

***Note:** Per **GASBS No. 49**, paragraph 23, if this revenue meets the definition of Special Item or Extraordinary Item, it would be reported on those line items.

Capitalization of pollution remediation outlays

GASBS No. 49, paragraph 22, states pollution remediation outlays, including outlays for property, plant, and equipment should be reported as an expense when a liability is recognized as discussed in paragraphs 12 to 21 with the following exception. **Pollution remediation outlays should be capitalized when goods or services are acquired for any of the following:**

- To prepare property in anticipation of a sale;
- To prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated;
- To perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or
- To acquire property, plant, and equipment that have a future alternative use.

Do not record a pollution remediation liability for expected outlays that can be capitalized. Capitalize actual amounts when goods/services are acquired. Refer to **GASBS No. 49**, paragraph 22, for guidance on the amounts that can be capitalized.

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GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Reporting

Per **GASBS No. 49**, paragraph 23, pollution remediation costs should be reported as expenses unless they meet the definition of Special Items or Extraordinary Items.

See Examples 1 to 3 on the following pages for example entries.

Disclosures

GASBS No. 49, paragraph 25, requires the following disclosures:

- Nature and source of pollution remediation obligations;
 - Amount of the estimated liability (if not apparent from the statements)
 - Methods and assumptions used for the estimate;
 - Potential for changes (i.e. from price increases/decreases, technology, applicable laws or regulations, etc.); and
 - Estimated recoveries reducing the liability
-

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GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Example 1

Below are examples, for the government-wide and proprietary fund statements, of possible AJEs related to **GASBS No. 49**. This is not authoritative and agencies must make the appropriate AJEs to comply with the reporting requirements of this statement:

Assumptions: During FY 2011 an obligating event took place. The expected pollution remediation outlays total \$1,000,000 and the expected recoveries that are not yet realizable or realized total \$200,000. The pollution remediation expense and liability would be the net amount of \$800,000. This example assumes no outlays meet the capitalization criteria of **GASBS No. 49**, paragraph 22.

If during FY 2012, the previous years' expected recoveries are realized, a recovery asset (i.e. cash) of \$200,000 would be recorded and the pollution remediation liability would be increased by \$200,000.

FY 2011 AJEs

Expenses*	800,000	
Other Liabilities		800,000

This entry is to report the estimated pollution remediation liability of \$1,000,000 net of the expected recoveries of \$200,000 that are not yet realized or realizable (see **GASBS No. 49**, paragraph 19a).

Note: If the obligating event related to this liability had occurred in prior years, the agency must make the appropriate adjustments for a restatement.

FY 2012 AJEs

Cash	200,000	
Other Liabilities		200,000

This entry is to report the \$200,000 of recoveries that are realized in FY 2012 (see **GASBS No. 49**, paragraph 19b).

Remeasurement: **GASBS No. 49**, paragraph 18, requires estimates of pollution remediation liability to be adjusted when benchmarks are met or when new information indicates changes in estimated outlays are needed. If needed, entries to adjust the pollution remediation liability must be made. Since this pollution remediation liability is an estimate, if changes are needed to the estimate in FY 2012, a restatement would not be needed.

***Note:** Per **GASBS No. 49**, paragraph 23, this amount should be reported on the Special Item or Extraordinary Item line items rather than expenses if they meet those definitions.

Continued on next page

GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Example 2

Assumptions: This example has the same assumptions as Example 1; however, the \$200,000 of expected recoveries is realizable for FY 2011.

FY 2011 AJEs

Expenses*	800,000	
Receivables, Net	200,000	
Other Liabilities		1,000,000

Since the expected recoveries are realizable, the receivable is reported and the entire estimated liability amount is reported. Total expenses of \$1,000,000 are reduced by the expected realizable recoveries of \$200,000.

As noted in Example 1, if the obligating event took place in prior years, the agency will need to determine the appropriate adjustments for restatements.

FY 2012 AJEs

Cash	200,000	
Receivables, Net		200,000

This entry is to report the recoveries received in FY 2012.

Remeasurement: As noted in Example 1, **GASBS No. 49**, paragraph 18, requires estimates of the pollution remediation liability to be adjusted when benchmarks are met or when new information indicates changes in estimated outlays are needed. Since this pollution remediation liability is an estimate, if changes are needed to the estimate in FY 2012, a restatement would not be needed.

***Note:** Per **GASBS No. 49**, paragraph 23, this amount should be reported on the Special Item or Extraordinary Item line items rather than expenses if they meet those definitions.

Continued on next page

GASBS No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations Overview, Continued

Example 3

Assumptions: This example assumes the same facts as example 1; however, \$300,000 of the \$1,000,000 of expected pollution remediation outlays are expected to meet the capitalization criteria in **GASBS No. 49**. In addition, \$150,000 of the \$200,000 expected recoveries will be for the capital assets. These recoveries were not realized or realizable until FY 2012. This also assumes the capital assets were acquired in FY 2012.

FY 2011 AJEs:

Expenses*	650,000	
Other Liabilities		650,000

This entry is to report the net estimated pollution remediation liability of \$650,000 (Total \$1,000,000 less the \$300,000 for items expected to meet the capitalization criteria in **GASBS No. 49** less the \$50,000 of expected recoveries not yet realizable and are not for the capital assets to be acquired). Per **GASBS No. 49**, paragraph 22, pollution remediation outlays that meet certain criteria should be capitalized when the goods and services are acquired.

As noted in Example 1, if the obligating event took place in prior years, the agency will need to determine the appropriate adjustments for restatements.

FY 2012 AJEs:

Cash	200,000	
Other Liabilities		50,000
Program Revenue-Capital Grants and Contributions		150,000

This entry is to report \$200,000 of recoveries that are realized in FY 2012. The \$150,000 of the recovery that is for the capital assets is reported as Program Revenue – Capital Contributions (see footnote 20 referred to in **GASBS No. 49**, paragraph 19a)

Capital Assets	300,000	
Cash		300,000

This entry is to report the \$300,000 of capital assets that were acquired during FY 2012.

As noted in Example 1, a revision to the liability may be needed based on the remeasurement.

***Note:** Per **GASBS No. 49**, paragraph 23, this amount should be reported on the Special Item or Extraordinary Item line items rather than expenses if they meet those definitions.

GASBS No. 51 – Accounting and Financial Reporting for Intangible Assets Overview

Purpose

The purpose of **GASBS No. 51**, *Accounting and Financial Reporting for Intangible Assets*, is to provide financial reporting standards for intangible assets. Intangible assets that meet the provisions in **GASBS No. 51** must be classified as a **capital asset** and they can be purchased or licensed (which includes acquisition through an installment contract), acquired through nonexchange transactions, or internally generated. Below are some examples of intangible assets:

- Easements
- Water rights
- Timber rights
- Patents
- Trademarks
- Computer software (including websites)

This document is provided for informational purposes and is not authoritative. Entities must refer to **GASBS No. 51** for reporting requirements.

GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, would apply to intangible assets that are reported as a capital asset per **GASBS No. 51**.

The invested in capital assets, net of related debt net asset calculation will include intangible assets as defined in **GASBS No. 51**.

Agency intangible assets that are not reported using the separate communication from DOA or a financial statement template (Attachments 9-13), should be reported on **Attachment 14**, Capital Asset Accounting and Control System (FAACS) Analysis, for inclusion in the Commonwealth's Comprehensive Annual Financial Report.

Characteristics

Per **GASBS No. 51**, paragraph 2, an intangible asset possesses the following characteristics:

- Lack of physical substance
- Nonfinancial nature
- Initial useful life extends beyond a single reporting period

Continued on next page

GASBS No. 51 – Accounting and Financial Reporting for Intangible Assets Overview, Continued

Exceptions

Per **GASBS No. 51**, paragraph 3, this statement **does not apply to the following**:

- 1) Assets that meet the description of an intangible asset in **GASBS No. 51**, paragraph 2; however, the asset is acquired or created primarily for the purpose of directly obtaining income or profit;
- 2) Assets resulting from capital lease transactions reported by lessees, which are addressed in the NCGA Statement 5, as amended; or
- 3) Goodwill created through the combination of the entity and another entity.

Refer to **GASBS No. 51** for information regarding the scope and applicability of this statement.

Classification & recognition

Per **GASBS No. 51**, paragraphs 5 & 6, intangible assets that are subject to the provisions of this statement must be classified as capital assets and they must be recognized on the statement of net assets only if they are identifiable. An intangible asset is considered identifiable if either of the following conditions are met:

- The asset is separable; or,
- The asset arises from contractual or other legal rights.

Refer to **GASBS No. 51** for information regarding the accounting and financial reporting for intangible assets.

Computer software (including websites)

Computer software can be purchased, licensed, or internally generated. Commercially available software that is purchased or licensed by the entity and placed into operation without modification requiring more than minimal incremental effort would generally meet the description of an intangible asset. See the following section for additional information regarding internally generated computer software.

If an entity acquires commercially available computer software through a multi-year licensing agreement and is required to make annual installment payments to the software vendor for the right to use the software over the life of the agreement, the entity would report the licensed software as an intangible asset and a long-term liability representing the entity's obligation to make the annual payments over the life of the contract.

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GASBS No. 51 – Accounting and Financial Reporting for Intangible Assets Overview, Continued

Internally generated intangible assets (including internally generated computer software)

GASBS No. 51, paragraphs 7 through 15, have specific guidance on when outlays are incurred to develop internally generated intangible assets, including internally generated computer software, can be capitalized and when they must be expensed. Intangible assets are considered internally generated if they are created or produced by the entity or an entity contracted by the entity, or if they are acquired from a third party but require more than minimal incremental effort on the part of the entity to begin to achieve their expected level of service capacity.

GASBS No. 51, paragraph 9, states that computer software should be considered internally generated if it is developed in-house by the entity's personnel or by a third-party contractor on behalf of the entity. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put in operation should also be considered internally generated for purposes of **GASBS No. 51**.

Per **GASBS No. 51**, paragraph 8, outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following*:

- Determination of the specific objective of the project & nature of the service capacity that is expected to be provided by the intangible asset upon completion of the project.
- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
- Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Outlays incurred prior to meeting the above criteria should be expensed and outlays incurred subsequent to meeting the above criteria should be capitalized.

Continued on next page

GASBS No. 51 – Accounting and Financial Reporting for Intangible Assets Overview, Continued

**Internally generated intangible assets (including internally generated computer software),
Continued**

Below is a table with activities involved in developing and installing internally generated computer software that can be grouped in the following stages and if the criteria in **GASBS No. 51**, paragraph 8, are met it shows which outlays would be expensed vs. capitalized:

Stage	Capitalized vs. Expensed
1) Preliminary project stage*	Expensed
2) Application development stage	Capitalized (Note: Capitalization should cease no later than the point at which the computer software is substantially complete and operational.)
3) Post-implementation/operation stage	Expensed

Refer to **GASBS No. 51** for guidance on accounting and financial reporting for internally generated intangible assets, including internally generated computer software as well as internally generated modification of computer software that is already in operation.

***Note:** For internally generated software, the criteria in **GASBS No. 51**, paragraph 8, should be considered met only when the preliminary project stage is completed and management implicitly or explicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software project.

Indefinite useful life

Per **GASBS No. 51**, paragraph 17, an intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, or other factors that may limit the useful life of the asset.

GASBS No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions Overview

Purpose

The purpose of **GASBS 54**, *Fund Balance Reporting and Governmental Fund Type Definitions*, is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of **GASBS No. 54** are effective for fiscal year 2011 and thereafter.

Fund Balance Reporting

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

New Fund Balance Classifications

- *Nonspendable Fund Balance* – Includes amounts that cannot be spent because they are either a) not in spendable form or b) legally required to be maintained intact such as the corpus of a permanent fund.
 - *Restricted Fund Balance* – Includes amounts that have constraints placed on the use of resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.
 - *Committed Fund Balance* – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.
 - *Assigned Fund Balance* – Includes amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed, except for stabilization arrangements.
 - *Unassigned Fund Balance* – Includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund.
-

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GASBS No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions Overview, Continued

**Fund
Definitions
Changed by
GASBS No. 54**

Special Revenue Funds

Used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects. Restricted or committed specific revenue sources should comprise a substantial portion of the fund's resources, but may also include other restricted, committed, and assigned resources.

Capital Projects Funds

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. Capital projects funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

**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
-

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates

Contents

This section contains the following topics:

- Accounts Payable
 - Leases
 - Cash Flow Statement
 - Agency Funds – Statement of Changes in Assets and Liabilities
 - Pension Disclosures
 - Fluctuation Analysis Guidelines and Materiality Scopes
 - Other Guidance
-

Accounts Payable

Definitions

Accounts Payable: An obligation incurred prior to year-end (June 30) that has not been paid at or before year-end. Appropriation or budgetary considerations are NOT APPLICABLE in deciding whether an expenditure is a payable.

Revenue Refund Payable: A Revenue Refund that the agency incurred prior to year-end (June 30) that the agency has not refunded on or before year-end.

P-voucher process

Use the P-voucher process to provide accounts payable and revenue refunds payable data to DOA for the modified accrual basis of accounting.

Continued on next page

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Accounts Payable, Continued

Requirements of P-voucher process

The agency must add a “P” or “N” as the last character in the voucher number for all vouchers submitted to DOA in July and August based on the following:

- If the voucher represents an account payable or revenue refund at June 30, add a “P.”
- If the voucher does **not** represent an account payable or revenue refund at June 30, add an “N.”

During July and August, DOA will not process vouchers without a “P” or an “N.”

DOA’s fiscal year 2011 year-end agency closing instructions provide additional guidance. These instructions are available for download from DOA’s web site at www.doa.virginia.gov. Click on “Year-End Closing Procedures.” The agency should become familiar with these instructions prior to year-end close.

Note: The year-end agency closing instructions for “P” and “N” vouchers include guidelines to properly code vouchers in accordance with **GASBS No. 33**, *Accounting and Financial Reporting for Nonexchange Transactions*, and **GASBS No. 36**, *Recipient Reporting for Certain Shared Nonexchange Revenues*.

Continued on next page

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Accounts Payable, Continued

Year-end reports

To assist in recording accounts payable and revenue refunds in the financial statements on a modified accrual basis of accounting, DOA provides special year-end reports.

The reports listed below provide accounts payable and revenue refund data separately for July and August and are distributed after July and August monthly closing.

- ACTB 1495 – Detail Accounts Payable Report by Agency/Fund/Fund Detail/Program/Subprogram
 - ACTB 1496 – Report of All P-Vouchers by Agency
 - ACTB 1497 – Detail Accounts Payable Report by Agency/Fund/Program
-

Record retention

To support financial statement disclosures, for APA review, and for agency internal audit review, retain the reports above and any related summaries in conformance with the existing record retention policies.

Records must include all accounts payable and revenue refunds payable. Do not include encumbered purchase orders or those portions of purchase orders for which goods or services were not received as of June 30.

Records should indicate to which expenditure or revenue line item each account payable or revenue refund voucher is recorded in the financial statements.

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Leases

GASBS No. 13 **GASBS No. 13**, *Accounting for Operating Leases with Scheduled Rent Increases*, sets standards for accounting and reporting operating leases with scheduled rent increases.

How to account for operating leases with scheduled rent increases

When the pattern of the payment requirements are systematic and rational, lessee and lessor should measure revenues or expenditures for operating leases with scheduled rent increases by using the terms of the lease contract.

Examples of payment schedules that meet the above criteria follow.

- Scheduled rent increases to cover “economic factors relating to the property, such as the anticipated effects of property appreciation or increases in costs due to factors such as inflation”
- Rent payments which represent “the time pattern in which the leased property is available for the use of the lease”

When rent payments in certain periods are artificially low when viewed in the context of earlier or later payments, measure the lease transaction using **one** of the following two alternatives:

- Straight-line basis
- Estimated fair value of the rental

Lease agreements that contain non-appropriation clauses do not preclude the recording of long-term liabilities for these lease payments.

Additional resources

For additional information concerning leases, refer to the CAPP Manual Topics 31200, *Lease Accounting*, and 70600, *Lease Accounting System (LAS)*. **These topics should be reviewed and understood before completing the attachments and supplemental information.** Refer questions to Bobby Eddleton, Assistant Director - Capital Assets and Federal Reporting, by phone at (804) 225-2257 or e-mail at bobby.eddleton@doa.virginia.gov.

Continued on next page

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Cash Flow Statement

GASBS No. 9

GASBS No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, requires a Statement of Cash Flows for all proprietary funds.

Agencies with proprietary funds must complete the Statement of Cash Flows in the financial statement templates submitted to DOA.

GASBS No. 9 defines cash equivalents as short-term, highly liquid investments with original maturities of three months or less.

Noncash transactions affecting assets or liabilities must be disclosed in accordance with **GASBS No. 9**, paragraph 37.

Continued on next page

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, *Continued*

Cash Flow Statement, *Continued*

Requirements

- The direct method must be used to prepare the Statement of Cash Flows. This method requires the preparation of a reconciliation of operating income to net cash provided by operating activities.
 - For Statement of Net Assets presentation, DOA defines cash equivalents as short-term, highly liquid investments with original maturities of **90 days or less**.
 - Include the Change in the Fair Value of Investments in the Noncash section of the Statement of Cash Flows. This represents the change in fair value of investments that is required to be reported in accordance with **GASBS No. 31**, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.
-

GFOA requirements

The Government Finance Officers Association **requires** the following:

- Reciprocal interfund services provided and used transactions should be presented on proprietary fund cash flow statements.
 - Reciprocal interfund services provided and used transactions should be accounted for as revenues, expenditures, or expenses on the operating statement in the funds involved.
 - The amount of contractual services on the operating statement should approximate the amount of contractual services reported on the Statement of Cash Flows.
-

Continued on next page

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Cash Flow Statement, Continued

Reciprocal interfund services provided and used

Reciprocal interfund services provided and used transactions are transactions that would be treated as revenues, expenditures, or expenses if the transactions involved organizations that are external to the governmental unit. Examples are listed below:

- Internal service billings to departments
- Routine service charges for inspection, engineering, utilities, or similar services provided by a department financed from one fund to a department financed from another fund

Thus, if an internal service fund purchases supplies from an outside vendor and from another State agency, the transactions between the internal service fund and the other agency must be reflected separately from the vendor transactions.

Reporting guidelines

Report reciprocal interfund transactions with customers or suppliers that are part of the Commonwealth on the Statement of Cash Flows as “**Internal Activity – Payments from Other Funds**” or “**Internal Activity – Payments to Other Funds.**”

Report transactions with customers or suppliers that are not part of the Commonwealth on the Statement of Cash Flows as “Receipts for Sales and Services” or “Payments to Suppliers for Goods and Services.”

Noncash flow activities

Review **GASBS No. 9** to ensure that transactions that do not have inflows or outflows of cash are not reported on the Statement of Cash Flows. Examples of items to be excluded follow.

- Bond issuance costs and underwriters' fees that were deducted from bond proceeds (Net bond proceeds received would be presented as a cash inflow in the appropriate category)
 - A debt defeasance where no cash was received
 - The “rollover” of investments, such as certificates of deposit, where no cash actually flows in or out of the fund
-

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Agency Funds – Statement of Changes in Assets and Liabilities

Purpose of agency funds

Agency Funds are used to account for assets held by a government in a custodial capacity for individuals, private organizations, or other governments.

Reporting of agency funds

Agency funds report assets equal to liabilities and do not measure or report results of operations. **In accordance with GASBS No. 34, agency funds are reported on the full accrual basis of accounting.** Investments must be reported by investment type (bonds, stocks, real estate, short-term, etc.).

Reporting revenue collected

If the agency collects monies on behalf of a third party, the agency is acting in a custodial capacity for the Commonwealth. The monies collected are not generally available to the agency for expenditure.

Report monies collected and **not** remitted to the third party as of June 30 as both assets and liabilities.

Report monies collected throughout the year as additions and monies remitted throughout the year to third parties as deductions.

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Pension Disclosures

GASBS No. 25 **GASBS No. 25**, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, establishes standards for pension plans, whether pension plan financial statements are included in the employer's financial report or in a separate financial report issued by the plan or the public employee retirement system that administers the plan.

GASBS No. 27 **GASBS No. 27**, *Accounting for Pensions by State and Local Governmental Employers*, establishes standards of accounting and financial reporting for pension expenditures/expenses and related liabilities, assets, note disclosures, and required supplementary information in the financial reports of state and local government **employers**.

GASBS No. 50 **GASBS No. 50**, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

Continued on next page

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Pension Disclosures, Continued

Who is responsible for reporting [GASBS No. 25, 27, and 50?](#)

- VRS has responsibility for complying with **GASBS No. 25** requirements.

For compliance with this Directive, agencies do **not** have to provide any VRS related disclosures required by **GASBS No. 25**.

- DOA is responsible for reporting **GASBS No. 27** financial statement, note disclosure, and required supplementary information requirements relating to VRS pension plans. Since employees of agencies are employees of the Commonwealth, net pension obligations of the VRS pension plans are reported in the participating funds only at the CAFR level and not in agency financial statements.

However, if the agency **issues separate audited GAAP based financial statements, the agency must include** the following pension related footnote disclosure:

Employees of the (agency's name) are employees of the Commonwealth. The employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the (agency's name), has overall responsibility for contributions to these plans.

- VRS is responsible for complying with **GASBS No. 50** requirements that amend **GASBS No. 25** to require defined benefit pension plans and defined contribution plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.

DOA has responsibility for complying with **GASBS No. 50** requirements that amend **GASBS No. 27** to require cost-sharing employers to include how the contractually required contribution rate is determined or that the cost-sharing plan is financed on a pay-as-you-go basis.

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Fluctuation Analysis Guidelines and Materiality Scopes

Fluctuation analyses

Fluctuation analyses have been added to the financial statement template attachments (Attachments 9-12) to compare the current year's financial statement template activity to the prior year's financial statement template activity. Material variances must be explained. Due to the nature of the activity reported for Agency Funds (Attachment 13), a fluctuation analysis is required to compare current year activity to prior year activity for increases and decreases in those funds.

Agencies may use the following guidelines for calculating materiality or may use their professional judgment and use a different methodology. To determine the agency's materiality select the **base amount** as the larger of current year's total assets or total revenue as reported on the agency's financial statement template. Using the following table, find the row that contains the base amount. The corresponding amount in the "Materiality Scope" column is the materiality scope.

Investigate and explain any variances between current and prior year activity at the financial statement template line item level that are **greater than the materiality scope AND greater than or equal to 10%**. Disregard negative signs. Ensure the explanations are reviewed and approved by the appropriate individual. The reviewers should consider whether significant variances should be discussed with the Agency Head or designee.

Continued on next page

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, *Continued*

Fluctuation Analysis Guidelines and Materiality Scopes, *Continued*

If the base amount for the current fiscal year is between:	Materiality Scope is:
\$0 – \$50,000	\$1,000
\$50,001 – \$100,000	\$3,000
\$100,001 – \$500,000	\$4,000
\$500,001 – \$1,000,000	\$13,000
\$1,000,001 – \$5,000,000	\$18,000
\$5,000,001 – \$10,000,000	\$50,000
\$10,000,001 – \$50,000,000	\$80,000
\$50,000,001 – \$100,000,000	\$240,000
\$100,000,001 – \$300,000,000	\$365,000
\$300,000,001 – \$1,000,000,000	\$725,000
\$1,000,000,001 - \$3,000,000,000	\$1,775,000
\$3,000,000,001 - \$10,000,000,000	\$4,175,000
\$10,000,000,001 - \$30,000,000,000	\$10,475,000
\$30,000,000,001 - \$100,000,000,000	\$22,475,000

Fluctuation analysis example

Agency XXX has total assets of \$12,000,000 and total revenues of \$6,000,000. The base amount for determining materiality would be total assets of \$12,000,000. The materiality scope for the current fiscal year financial statement template would be \$80,000.

The following documents the variances that must be explained.

Line Item	Current Fiscal Year	Prior Fiscal Year	\$ Variance	% Variance	Explain
Other Assets	\$800,000	\$1,000,000	(\$200,000)	(20%)	Yes
Education Expenditure	\$400,000	\$350,000	\$50,000	14%	No
Rights and Privileges Revenue	\$350,000	\$330,000	\$20,000	6%	No

Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Other Guidance

Interfund assets and liabilities Distinguish between “**Due to/from Other Funds**” and “**Interfund Receivables/Payables.**”

“**Due to/from Other Funds**” are amounts owed by one fund to another within the same agency for goods sold or services rendered.

“**Interfund Receivables/Payables**” are loans made by one fund to another either within the same agency or in between agencies.

Within an agency’s financial statements, interfund receivables must equal interfund payables and due to other funds must equal due from other funds. Since only selected funds are reported via financial statement templates, the interfund balances **may** not net to zero for the funds reported.
