

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

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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.

For additional information regarding GASB Statements, refer to the GASB website at www.gasb.org.

Questions

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

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Early implementation of GASB statements

There will be **no** early implementation of any GASB statement for Comprehensive Annual Financial Report (CAFR) reporting purposes. Any entity that plans early implementation of any GASB statement should notify Sharon Lawrence, Director – Financial Reporting, immediately at (804) 225-2414 or sharon.lawrence@doa.virginia.gov.

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GASB Statements, Continued

Current Implementations

GASBS No. 72 **GASBS No. 72**, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. This Statement defines fair value and provides guidance for determining a fair value measurement for financial reporting purposes. For the fair value measurement, the Statement requires a government entity to use appropriate valuation techniques that are consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. Furthermore, the Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices for identical assets or liabilities in active markets. Level 2 inputs are inputs that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. Provisions related to fair value established using net asset value per share (or its equivalent) and measurement of certain assets at acquisition value are also provided in the Statement.

GASBS No. 73 **GASBS No. 73**, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet specified criteria as provided in the Statement. The Statement amends certain provisions for pension plans that are within the scope of **GASBS No. 67**, *Financial Reporting for Pension Plans*, and for pensions that are within the scope of **GASBS No. 68**, *Accounting and Financial Reporting for Pensions*.

The requirements of this Statement, for pension plans that are within the scope of **GASBS No. 67**, *Financial Reporting for Pension Plans*, or for pensions that are within the scope of **GASBS No. 68**, *Accounting and Financial Reporting for Pensions*, are effective for fiscal year 2016.

GASB Statements, Continued

Current Implementations, Continued

GASBS No. 76 **GASBS No. 76**, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, supersedes **GASBS No. 55**, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and amends certain provisions of **GASBS No. 62**, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements*. The Statement simplifies the structure of the hierarchy of GAAP that state and local governments follow when preparing financial statements in conformity with GAAP and outlines the order of priority for pronouncements to which a government should look for guidance. The provisions of **GASBS No. 76** are applied retroactively.

GASBS No. 79 **GASBS No.79**, *Certain External Investment Pools and Pool Participants*, establishes criteria, for an external investment pool, that must be met to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. If an external investment pool meets the criteria as established by the Statement and measures all of its investments at amortized cost, the pool's participants should also measure their investments in that external investment pool at amortized cost for financial reporting purposes. The Statement also establishes additional note disclosure requirements for qualifying external investment pools and their participants that measure all of their investments at amortized cost for financial reporting purposes. The provisions of **GASBS No. 79** are effective for fiscal year 2016 except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing.

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GASB Statements, Continued

Future Implementations

GASBS No. 73 **GASBS No. 73**, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement establishes requirements for accounting and financial reporting by employers and governmental nonemployer contributing entities for defined benefit pensions and defined contribution pensions that are not within the scope of **GASBS No. 68**, *Accounting Financial Reporting for Pensions*. These requirements are effective for fiscal year 2017.

GASBS No. 74 **GASBS No. 74**, *Financial Reporting for Postemployment Benefit Plans Other Than pension Plans*, replaces **GASBS No. 43**, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and **GASBS No. 57**, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Statement also establishes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in **GASBS No. 25**, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, **GASBS No. 43** and **GASBS No. 50**, *Pension Disclosures*.

The Statement addresses accounting and financial reporting requirements for OPEB plans, defined benefit and defined contribution, administered through trusts that meet specified criteria. The Statement also provides guidance on financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that *are not* administered through trusts that meet specified criteria. The provisions of **GASBS No. 74** are effective for fiscal year 2017.

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GASB Statements, Continued

Future Implementations, Continued

GASBS No. 77 **GASBS No. 77**, *Tax Abatement Disclosures*, provides guidance on tax abatement disclosure requirements as state and local governments frequently enter into tax abatement agreements to encourage economic development. The provisions of **GASBS No. 77** are effective for fiscal year 2017 and apply to notes to the financial statements for all periods presented.

GASBS No. 78 **GASBS No. 78**, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, amends the scope and applicability of **GASBS No. 68**, *Accounting and Financial Reporting for Pensions*, to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meets specified criteria established in the Statement. The Statement further establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions thereof. The provisions of **GASBS No. 78** are effective for fiscal year 2017.

GASBS No. 79 **GASBS No.79**, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes, and for pool participants thereof. The specific criteria that must be met as established in the Statement address (1) how the external investment pool transacts with pool participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; (3) calculation and requirements of a shadow price. Provisions of **GASBS No. 79** for certain requirements for portfolio quality, custodial credit risk, and shadow pricing are effective for fiscal year 2017.

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GASB Statements, Continued

Future Implementations, Continued

GASBS No. 80 **GASBS No. 80**, *Blending Requirements for Certain Component Units*, provides clarification on financial statement presentation requirements for certain component units previously established by **GASBS No. 14**, *The Financial Reporting Entity*, paragraph 53. The Statement creates an additional blending requirement that becomes the third requirement for the financial statement presentation of component units and applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The provisions of **GASBS No. 80** are effective for fiscal year 2017 and apply retroactively.

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*, **GASBS No. 36**, *Recipient Reporting for Certain Shared Nonexchange Revenues*, and **GASBS No. 65**, *Items Previously Reported as Assets and Liabilities*, 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.
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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**, **GASBS No. 36**, and **GASBS No. 65** must be reclassified as unearned revenue. **GASBS No. 65** requires revenue transactions that only fail to meet the timing requirement, while meeting all others, to be reclassified as a deferred inflow of resources. Expense/expenditure transactions that do not meet the expense/expenditure recognition requirements in **GASBS No. 33** must be reclassified as an advance. **GASBS No. 65** requires expense/expenditure transactions that only fail to meet the timing requirement, while meeting all others, to be reclassified as a deferred outflow of resources. 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, GASBS No. 36, and GASBS No. 65 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**, **GASBS No. 36**, and **GASBS No. 65** information on funds not included in financial statement templates:

- **Attachment 1** – Checklist to Determine Information Required by Comptroller’s Directive
- **Attachment 16** – **GASBS No. 33** Expenditure and Revenue Analysis
- **Attachment 27** – **GASBS No. 33** Federal Fund Analysis – Nonreimbursement Grants

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

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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**. In addition, **GASBS No. 63**, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, amends certain parts of **GASBS No. 34**.

For additional guidance regarding **GASBS No. 34**, refer to the most current Implementation Guide No. 2015-1, issued by GASB, which is located on GASB’s website at <http://www.gasb.org>.

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 Edition (GAAFR)</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, GASBS No. 63, 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, GASBS No. 63, 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 Commonwealth's Comprehensive Annual Financial Report (CAFR):

- Management Discussion and Analysis
- Basic Financial Statements:
 - Government-wide financial statements
 - 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 Position 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 Position and Proprietary Fund Statement of Net Position have the following net position line items: Net Investment in Capital Assets; 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, GASBS No. 63, GASB Interpretation No. 6, and the most current Implementation Guide No. 2015-1, 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](#), as clarified by [GASBS No. 54](#), 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 Position 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 Position,
- Statement of Revenues, Expenses, and Changes in Fund Net Position, 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 Position, and
 - Statement of Changes in Fiduciary Net Position.
-

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 Position (similar to a balance sheet), and
- Statement of Activities (similar to an operating statement)

The *2012 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 position of governmental activities on the Statement of Net Position
 - Reconciliation between the total change in governmental fund balances and the change in net position 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 capital 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 inflows of resources 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 *2012 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 plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues OR expenditures/expenses of the individual fund \geq 10% of the corresponding total (assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, etc.) for all funds of that category (i.e., total governmental OR enterprise funds)

AND

- Total assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, 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 plus deferred outflows of resources, liabilities plus deferred inflows of resources, 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 Position – 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 Position for Governmental Funds.
- For the Statement of Net Position, net position must be displayed in three broad components:
 1. **Net Investment in capital assets**
 2. **Restricted (including a description of each type of restriction)**
 3. **Unrestricted**
- The following sections provide definitions of Net Investment in Capital Assets and Restricted Net Position. **Unrestricted** net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Statement of Net Position – Net Investment in Capital Assets

This component of net position 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.* It does not include investment earnings on those unspent proceeds which would most likely be reported on one of the restricted net position line items. This component only includes accounts and retainage payable if it will be paid with unspent proceeds on the debt related to capital assets. It also includes deferred outflows of resources and excludes deferred inflows of resources attributable to the acquisition, construction, or improvement of capital assets or debt related to capital assets.

***Note:** 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 net investment in capital assets. Rather, that portion of the debt should be included in the same net position component as the unspent proceeds - for example, restricted for capital projects. Additionally, this calculation should be revised, as appropriate, to consider the impact of any Capital Assets purchased with bond proceeds that were subsequently permanently impaired.

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GASBS No. 34 – Financial Reporting Model Overview, Continued

Statement of Net Position – Restricted Net Position

Restricted net position should be reported as restricted, including a description of the restriction, when constraints placed on net position 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 Implementation Guide No. 2015-1 issued by GASB in 2015, 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 position includes 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 position.

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 or 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 – expense 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, expense 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 (generally source codes 01xxx)
- Investment Earnings*
- Grants & Contributions*
- Miscellaneous

All taxes, even those that are levied for a specific purpose (for example, sales tax and 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.

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. **Accounts 4002xxx – Rights & Privileges, 4003xxx – Sales of Property, 4005xxx – Assessments, and 4008xxx – Fines, Fees & Forfeitures should be classified as Charges for Goods/Services. These are not the only accounts that may be classified as charges for goods/services.**
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GASBS No. 34 – Financial Reporting Model Overview, Continued

Statement of Activities – Program Revenue, continued

- **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 2016 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. **For fiscal year 2016, the GASBS No. 34 Government-wide Revenue Classification Table was completed using activity through May.** 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 June 2016.

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 Position – 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 Position must be prepared in the **classified format**.
- For the Statement of Net Position, net position must be displayed as follows: Net Investment in Capital Assets, Restricted (including a description), and Unrestricted. **In some cases, this reporting will result in a negative net position unrestricted balance.** See the following example for reporting total net position of \$1,000,000:

Net Investment in Capital Assets	\$2,500,000
Restricted Net Position	0
Unrestricted Net Position	<u>(\$1,500,000)</u>
Total Net Position	<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 Position.
- 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 Position.
-

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.

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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 Position (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 position 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 and governmental) - program revenues or extraordinary item
- Statement of Revenues, Expenses, and Changes in Fund Net Position (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.

Instructions for Tab 3, Part 3.1 of Attachments 10, 11, & 12

This part is to identify potential impairments as follows:

- A) **Possible Impairment of Capital Assets:** As of June 30, 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.

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

**Instructions for
Tab 3, Part 3.1
of Attachments
10, 11, & 12,
continued**

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.

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 template in accordance with **GASBS No. 42**? If **no**, provide an explanation. If **yes**, provide the impairment loss, insurance recoveries, and template 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. In addition, the net investment in capital assets calculation should be revised for any capital assets purchased with bond proceeds that were subsequently permanently impaired.

Losses on capital assets that became permanently impaired during the current fiscal year 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 position should be restated. Use professional judgment to determine the appropriate template 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.

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

Instructions for Tab 3, Part 3.2 of Attachments 10, 11, & 12

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.

Instructions for Other Insurance Recoveries – Attachments 10, 11, & 12

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 **Tab 7 – Miscellaneous, Question 5 (Attachment 10 or 11)**, for both the Enterprise Fund Financial Statement Template and 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, & 12

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 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.**

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

Example Entries for Attachments 10, 11, & 12, Continued

Note A: Depending on the circumstances of the impairment, the other template 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 template 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 template 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, & 12, 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, & 12, 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		
Special Item		
Extraordinary Item	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 5 on **Attachments 10** or **11** as follows:

Yes	Question 5	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	
	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 postclosure care obligations within the scope of **GASBS No. 18**, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*.
- 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.

Continued on next page

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 one 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 to 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.

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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 (e.g., payroll and benefits, equipment and facilities, materials, and other professional services) and may include estimated indirect outlays. Outlays related to natural resource damage (e.g., 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 that 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: An obligating event took place during FY 2016. 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 2017, 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 2016 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:** 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.

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 2017 AJEs

Cash	200,000	
Other Liabilities		200,000

This entry is to report the \$200,000 of recoveries that are realized in FY 2017 (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 2017, a restatement would not be necessary.

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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 2016.

FY 2016 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.

***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.

FY 2017 AJEs

Cash	200,000	
Receivables, Net		200,000

This entry is to report the recoveries received in FY 2017.

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 2017, a restatement would not be necessary.

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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 2017. This also assumes the capital assets were acquired in FY 2017.

FY 2016 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.

***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.

FY 2017 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 2017. 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 2017.

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

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 net investment in capital assets net position 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 9-12**), should be reported on **Attachment 14**, Capital Asset Accounting and Control System (FAACS) Analysis, for inclusion in the CAFR.

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

Exceptions

Per **GASBS No. 51**, paragraph 3, as amended by **GASBS No. 72**, paragraph 64, 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 assets meet the definition of investments;
- 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 position only if they are identifiable. An intangible asset is considered identifiable if either of the following conditions is 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; and,
- 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.

Note: Capitalization should cease no later than the point at which the computer software is substantially complete and operational.

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

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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), 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 No. 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.

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.

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:** The amount of fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes. A negative amount indicates that restricted and committed amounts exceed the available modified accrual basis fund balance.
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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
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GASBS No. 61 - The Financial Reporting Entity: Omnibus **Overview**

Overview

GASBS No. 61, *The Financial Reporting Entity: Omnibus*, provides amendments to **GASBS No. 14** and **GASBS No. 34**. A summary of some of the amendments follow; however, this is not a complete listing and is not authoritative. Refer to **GASBS No. 14** as amended by **GASBS No. 39** and **GASBS No. 61** for detailed guidance.

- Amendments and clarification for the inclusion of a legally separate entity to be included as a component unit are as follows: 1) Fiscal dependency* on the primary government (PG) alone is no longer a requirement for inclusion. There must be a fiscal dependency on the PG as well as a financial benefit or burden relationship with the PG; and 2) The "misleading to exclude" criteria has been clarified;
- Amendments to the determination of major component units;
- Revisions and additional criteria for including a component unit in the PG's financial statements using the blending method (blended CUs);
- Amendments to the reporting of blended CUs if the PG is a business-type activity that reports in a single column (Condensed combining information must be included in the notes to the financial statements.);
- Amendments to the notes to disclose the rationale for including each CU and how it is included in the financial statement (i.e., blended, discrete, fiduciary funds);
- Amendments for reporting of equity interests in legally separate organizations; and,
- Restricted nonexpendable net position – amended definition: net position required to be retained in perpetuity or that represent minority interests in component units.

***Note:** **GASBS No. 61** did not change the definition of fiscal dependency. The potential component unit (PCU) is fiscally dependent on the PG if any of the following conditions exist: 1) PG has authority to approve and modify the PCU's budget. 2) PCU cannot levy taxes or set rates or charges without the PG's approval. 3) The PCU cannot issue bonded debt without the PG's approval. Refer to **GASBS No. 14**, paragraphs 16 to 18, for additional information.

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GASBS No. 61 - The Financial Reporting Entity: Omnibus Overview, Continued

Component unit criteria

If a legally separate organization meets any of the criteria below, it must be reported as a component unit by the primary government in accordance with **GASBS No. 14** as amended by **GASBS Nos. 39 and 61**.

#	Component Unit Criteria
1	PG appoints voting majority of the organization's governing body and 1) the PG is able to impose its will on the organization or 2) there is a financial benefit or burden relationship with the PG
2	The organization is fiscally dependent on the PG <u>and</u> there is a financial benefit or burden relationship with the PG.
3	If an organization does not meet condition 1 or 2 above, it is a matter of professional judgment to determine whether the nature and significance of a PCU's relationship with the PG is such that inclusion is needed to prevent the financial reporting entity's financial statements from being misleading. In addition, the organizations that would be evaluated as PCUs would be closely related to or financially integrated with the PG. Note: The focus of this evaluation is generally on financial relationships.
4	A legally separate tax exempt organization that meets all of the following criteria: 1) The economic resources received or held by the organization are entirely or almost entirely for the benefit of the PG, its component units, or its constituents. 2) The PG, or its component units, is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separate organization; and 3) These economic resources are significant to the PG.
5	PG owns a majority of the equity interest in a legally separate organization (for example, through acquisition of its voting stock) and the PG's intent for owning a majority equity interest is to directly enhance its ability to provide governmental services.

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GASBS No. 61 - The Financial Reporting Entity: Omnibus **Overview, Continued**

Component unit blended presentation

If a component unit (CU) meets any of the following conditions, it must be included in the primary government's financial statements in a blended presentation (i.e. reporting component unit financial data as part of the PG) rather than discrete presentation (i.e. reporting component unit financial data in a column separate from the financial data of the PG). See the next section for the exception to the blended presentation criteria.

#	Blended Presentation Criteria
1	CU's governing body is substantively the same as the governing body of the PG <p style="text-align: center;">and</p> 1) There is also a financial benefit or burden relationship with the PG or 2) Management of the PG has operational responsibility for the CU.
2	CU provides services entirely, or almost entirely, to the PG or otherwise exclusively, or almost exclusively, benefits the PG even though it does not provide services directly to it.
3	CU's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the PG.

Exception to blended presentation criteria

If a legally separate tax exempt organization is reported as a component unit only because it meets all of the following criteria, it should be presented discretely:

- 1) The economic resources received or held by the organization are entirely or almost entirely for the benefit of the PG, its component units, or its constituents.
- 2) The PG, or its component units, is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separate organization; and
- 3) These economic resources are significant to the PG.

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GASBS No. 61 - The Financial Reporting Entity: Omnibus **Overview, Continued**

Equity interest in a joint venture

GASBS No. 14, paragraphs 69 to 76, provide reporting guidance for joint ventures*. **GASBS No. 61**, paragraph 10, replaces the term “investment” with “equity interest*.”

***Note:** **GASBS No. 14**, paragraph 69, defines a **joint venture** as a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. **GASBS No. 14**, paragraph 72, defines **equity interest** as a financial interest in a joint venture evidenced by the ownership of shares of the joint venture's stock or by otherwise having an explicit, measurable right to the net resources of the joint venture that is usually based on an investment of financial or capital resources by a participating government.

Equity interest in a component unit

GASBS No. 61 includes amendments regarding how the primary government (PG) is to report the equity interests in the PG's component unit(s). For example, a legally separate organization in which the PG owns a majority of the equity interest in order to directly enhance its ability to provide governmental services would be reported as a component unit of the PG and the PG's equity interest in the CU would be reported by the PG as follows:

- If the component unit is discretely presented: The equity interest should be reported as an asset of the fund that has the equity interest. Changes in equity interest should be reported in accordance with **GASBS No. 14**, paragraphs 73 & 74.

Note: **GASBS No. 61**, Appendix B, paragraph 61, states that if an optional total column for the reporting entity is presented, the equity interest would be eliminated and only the discretely presented component unit's financial statement information would remain.

- If the component unit is blended: In the year of acquisition, the purchase would be reported as an outflow (i.e., expense/expenditure) of the fund that provided the resources for the acquisition. In addition, in the year of acquisition and subsequent years, the blended component unit would be reported in accordance with the blending requirements.
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GASBS No. 61 - The Financial Reporting Entity: Omnibus **Overview, Continued**

Equity interest in a component unit with joint venture characteristics

Equity Interest in the Majority Participant Primary Government's Component Unit: **GASBS No. 61** includes amendments regarding how the primary government (PG) is to report the equity interests in the PG's component unit that has joint venture characteristics. A PG may be a participant of an organization with joint venture characteristics in that the organization may have several participants; however, one participating government (majority participant) appoints a voting majority of the organization's governing body. Therefore, there is no joint control and it does not meet the definition of a joint venture. If the PG is the majority participant and the organization meets the criteria to be reported as a component unit of the majority participant PG, any equity interests that the majority participant PG has in the component unit should be reported in accordance with the requirements described in the previous section.

Reporting of Other Governmental Participants (Minority Participants) Equity Interests in the Majority Participant Primary Government's Component Unit: **GASBS No. 61** requires that when the organization is included as a component unit of the majority participant's financial reporting entity, any equity interests of the other governmental participants (minority participants) should be reported in the **restricted net position-nonexpendable category**. In addition, **GASBS No. 34** is amended to define nonexpendable net position as those required to be retained in perpetuity or that represent minority interests in component units.

Note: The other governmental participants (minority participants) should report their participation in the organization in accordance with the requirements of **GASBS No. 14**, paragraphs 73 to 77.

GASBS No. 62 – Codification of Accounting and Financial Reporting Overview

Overview

GASBS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates selected guidance from the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflicted with or contradicted GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements & Interpretations
- Accounting Principles Board (APB) Opinions
- Accounting Research Bulletins (ARBs) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

Prior to the implementation of **GASBS No. 62**, professional judgment had to be used to determine what pronouncements applied and did not conflict with or contradict GASB pronouncements. **GASBS No. 62** clarifies and consolidates these FASB and AICPA accounting and financial reporting provisions that apply to state and local governments.

Additionally, **GASBS No. 20**, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, required proprietary entities to follow the reporting guidance noted above. Further, proprietary entities could also elect to apply post-November 30, 1989 FASB Statements and Interpretations that did not conflict with or contradict GASB pronouncements. **GASBS No. 62** supersedes **GASBS No. 20** and eliminates the election to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

Note: Those entities may continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

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GASBS No. 62 – Codification of Accounting and Financial Reporting Overview, Continued

Topics **GASBS No. 62** addresses over 100 pronouncements. Below is an overall listing of accounting and financial reporting topic areas. Refer to **GASBS No. 62** as amended by **GASBS Nos. 63, 65, 66, 69, 70, 72, and 76** for authoritative and detailed guidance.

1. Capitalization of Interest Cost
2. Revenue Recognition for Exchange Transactions
3. Revenue Recognition When Right of Return Exists
4. Statement of Net Position Classification (as amended by **GASBS Nos. 63 and 65**)
5. Special and Extraordinary Items
6. Comparative Financial Statements
7. Related Parties
8. Prior-Period Adjustments
9. Accounting Changes and Error Corrections (as amended by **GASBS Nos. 65 and 76**)
10. Disclosure of Accounting Policies
11. Contingencies (as amended by **GASBS No. 70**)
12. Construction-Type Contracts-Long-Term (as amended by **GASBS No. 65**)
13. Extinguishments of Debt (as amended by **GASBS Nos. 65 and 70**)
14. Troubled Debt Restructuring (as amended by **GASBS Nos. 65 and 72**)
15. Foreign Currency Transactions
16. Interest Costs-Imputation (as amended by **GASBS No. 65**)
17. Inventory
18. Investments in Common Stock (as amended by **GASBS Nos. 69 and 72**)
19. Leases (as amended by **GASBS Nos. 65 and 66**)
20. Nonmonetary Transactions
21. Sales of Real Estate (as amended by **GASBS No. 65**)
22. Costs and Initial Rental Operations of Real Estate Projects (as amended by **GASBS No. 72**)
23. Research and Development Arrangements
24. Broadcasters
25. Cable Television Systems
26. Insurance Entities-Other Than Public Entity Risk Pools (as amended by **GASBS Nos. 65 and 72**)
27. Lending Activities (as amended by **GASBS Nos. 65 and 66**)
28. Mortgage Banking Activities (as amended by **GASBS Nos. 65 and 66**)
29. Regulated Operations (as amended by **GASBS No. 65**)
30. Right of Offset

The following sections have some information regarding the above topic areas; however, this information is not complete or authoritative. Refer to **GASBS No. 62** for detailed guidance.

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GASBS No. 62 – Codification of Accounting and Financial Reporting Overview, Continued

Capitalization of interest cost

This section includes guidance for capitalizing interest as part of the historical cost of constructing certain business-type activity assets. **GASBS No. 37**, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*, excludes governmental activities from capitalizing construction-period interest costs. **GASBS No. 62** indicates that business-type assets, unless restricted by the donor, should qualify for interest capitalization because capitalizing construction-period interest for these capital assets would be consistent with other constructed capital assets.

The amount of interest cost to be capitalized is still recognized on borrowings and other obligations. The interest rate for capitalization purposes is to be based on the rates on the enterprise's outstanding borrowings. A weighted average of the rates on other borrowings is to be applied to expenditures not covered by specific new borrowings. Judgment still must be used to identify the borrowings on which the average rate is based.

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GASBS No. 62 – Codification of Accounting and Financial Reporting Overview, Continued

Revenue recognition

This section provides for using different methods of revenue recognition for exchange transactions if the circumstances of the transaction are such that the collection of the sale price is not reasonably assured. Generally, revenue from exchange transactions should be recognized when the exchange takes place.

Guidance relating to revenue recognition when the right of return exists is limited to business-type activities and proprietary funds since these activities would be the most likely to need to apply the guidance. All of the following criteria must be met when right of return exists:

- The government's price to the buyer is substantially fixed or determinable at the date of the exchange transaction.
- The buyer has paid the government, or the buyer is obligated to pay the government and the obligation is not contingent on resale of the product.
- The buyer's obligation to the government would not be changed in the event of theft or physical destruction or damage of the product.
- The buyer acquiring the product for resale has economic substance apart from that provided by the government.
- The government does not have significant obligations for future performance to directly bring about resale of the product by the buyer.
- The amount of future returns can be reasonably estimated.

The following factors may impair the ability to make a reasonable estimate of future returns:

- The susceptibility of the product to significant external factors, such as technological obsolescence or changes in demand.
- Relatively long periods in which a particular product may be returned.
- Absence of historical experience with similar types of exchange transactions of similar products, or inability to apply such experience because of changing circumstances.
- Absence of a large volume of relatively homogeneous transactions.

Note: The significance of any of the above should be considered when determining impairment.

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GASBS No. 62 – Codification of Accounting and Financial Reporting Overview, Continued

Statement of net position classification

This guidance defines and provides examples of what may be included in or excluded from current assets and current liabilities in a classified format. Proprietary activities are required to present a classified balance sheet or statement of net position. To determine current assets and liabilities, only a one-year operating cycle is used. GASB Interpretation 1 should be used for classifying demand bonds. The valuation of marketable securities and temporary investments should be made pursuant to **GASBS No. 31**, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Special and extraordinary items

This section defines *unusual in nature* and *infrequent in occurrence* and provides guidelines including disclosures.

Related parties

Related organizations, joint ventures, and jointly governed organizations represent related parties.

Prior-period adjustments

Those items that are reported as prior-period adjustments should be reflected as adjustments of the opening balance of net position. When comparative statements are presented, corresponding adjustments should be made for all of the periods reported therein to reflect the retroactive application of the prior-period adjustments.

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GASBS No. 62 – Codification of Accounting and Financial Reporting Overview, Continued

Accounting changes and other error corrections

This guidance defines various types of accounting changes, such as changes in accounting principle or estimate, and provides guidance for determining the manner of reporting each type. It also covers reporting a correction of an error in previously issued financial statements. The correction of an error in previously issued financial statements is not classified as an accounting change.

The presumption that a government should not change an accounting principle may be overcome only if the government justifies the use of an alternative acceptable accounting principle on the basis that it is preferable. However, a method of accounting that previously was adopted for a type of transaction or event that is being terminated or that was single, nonrecurring event in the past should not be changed.

The effect of a change in accounting estimate should continue to be reported in the period of change and should not be accounted for by restating amounts reported in financial statements of prior periods, however; a change in reporting entity should be reported by restating the financial statements of prior periods.

Contingencies

This guidance addresses circumstances in which a loss contingency should be recognized as a liability or disclosed in the notes to the financial statements.

Extinguishments of debt

Extinguishment of debt for financial reporting purposes was defined as one that did not arise by using financial resources from debt proceeds and one for which the debtor was legally released from being the primary obligor under the debt. The difference between the reacquisition price and the net carrying amount of the extinguished debt should be recognized in the flows statement of the period of extinguishment as a loss or gain and should not be amortized to future periods.

Inventory

In business-type activities, inventory generally represents tangible personal property that will be sold (either the finished product or components of the finished product) or items consumed while providing services. Inventory excludes long-term assets subject to depreciation accounting, or goods that when put into use, will be classified as long-term assets. The fact that a depreciable asset is retired from regular use and held for sale does not indicate that it should be classified as inventory.

Continued on next page

GASBS No. 62 – Codification of Accounting and Financial Reporting Overview, Continued

Investments in common stock

This section explains how to apply the equity method to valuing these investments.

The difference between the carrying amount of an investment in common stock of an investee that qualifies for the equity method, and the equity in net position of the investee should be accounted for as deferred outflows of resources and attributed to future periods in a systematic and rational manner that is consistent with accounting for an acquisition of a subsidiary under the pre-1989 FASB and AICPA pronouncements.

The significance of an investment to the government's financial position and results of operations should be considered in evaluating the extent of disclosures of the financial position. The following disclosures generally are applicable to the equity method of accounting for investments in common stock:

- a. Financial statements of a government should disclose in the notes to financial statements: (1) the name of each investee and percentage of ownership of common stock, (2) the accounting policies of the government with respect to investments in common stock, and (3) the difference, if any, between the amount at which an investment is carried and the amount of underlying equity in net position and the accounting treatment of the difference.
- b. For those investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price should be disclosed.
- c. When investments in common stock accounted for under the equity method are, in the aggregate, significant in relation to the financial position or results of operations of a government, it may be necessary for summarized information about assets, liabilities, and results of operations of the investees to be presented in the notes to the financial statements either individually or in groups, as appropriate.
- d. Conversion of outstanding convertible securities, exercise of outstanding option and warrants, and other contingent issuances of an investee may have a significant effect on a government's share of reported earnings or losses. Accordingly, significant effects of possible conversions, exercises, or contingent issuances should be disclosed in notes to the financial statements.

Continued on next page

GASBS No. 62 – Codification of Accounting and Financial Reporting Overview, Continued

Investments in common stock, continued

Equity interests in common stock as described above and meeting certain criteria in **GASBS No. 62** should be reported using the equity method of accounting **except** for the following:

- 1) Common stock held by:
 - External investment pools
 - Pension or other postemployment benefit plans
 - Internal Revenue Code Section 457 deferred compensation plans
 - Endowments (including permanent and term endowments) or permanent funds
- 2) Investments in certain entities that calculate net asset value per share (or its equivalent) as provided in **GASBS No. 72** and previously discussed
- 3) Equity interest ownership in joint ventures or component units as provided in **GASBS No. 14**, as amended.

Equity interests in common stock that do not meet both the definition of an investment and the criteria in **GASBS No. 62** for using the equity method should be accounted for using the cost method as provided in **GASBS No. 62**.

Continued on next page

GASBS No. 62 – Codification of Accounting and Financial Reporting Overview, Continued

Leases

Leases represent agreements that convey the right to use capital assets such as buildings or equipment for a contractually specified period of time. Leases are considered capital if certain criteria are met and are considered operating in all other instances. While taxes are not usually applicable for governments, there may be instances where taxes are applicable. In these instances, taxes may be included as executory costs.

Nonmonetary transactions

Exchanges that involve little or no monetary assets or liabilities are referred to as nonmonetary transactions

Insurance entities – other than public entity risk pools

Insurance entities, other than public entity risk pools, should be reported in an enterprise fund. This guidance applies to short-duration insurance contracts (e.g., contract provides insurance protection for a fixed period) and allows the insurer to cancel the contract or adjust the provisions at the end of the contract. Examples of short-duration contracts are property and liability insurance, and workers compensation programs.

GASBS No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Overview

Overview

GASBS No. 63 provides guidance for the reporting of deferred outflows of resources, deferred inflows of resources, net position in a statement of financial position and related disclosures. A summary of some of the requirements follow; however, this is not authoritative. Refer to **GASBS No. 63** for detailed guidance.

Deferred outflows/ inflows of resources

Concepts Statement No. 4 defines deferred outflows of resources as a consumption of net assets* that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net assets* that is applicable to a future reporting period. Concepts Statement No. 4 also states that the recognition of deferred outflows/inflows of resources should be limited to those instances identified by the GASB in authoritative pronouncements. For FY 2016, the following GASB statements require the reporting of deferred outflows of resources and/or deferred inflows of resources:

- **GASBS No. 53**, *Accounting and Financial Reporting for Derivative Instruments*,
- **GASBS No. 60**, *Accounting and Financial Reporting for Service Concession Arrangements*,
- **GASBS No. 65**, *Items Previously Reported as Assets and Liabilities*,
- **GASBS No. 68**, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, as amended by GASBS No. 73***, and
- **GASBS No. 69**, *Government Combinations and Disposals of Government Operations*.

***Note:** Concepts Statement No. 4 states a consumption of net assets results in a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets. In addition, it states an acquisition of net assets results in an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets.

****Note:** Portions of **GASBS No. 73**, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, that amend **GASBS No. 67** and **GASBS No. 68** are effective beginning in FY 2016.

Continued on next page

GASBS No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position Overview, Continued

Deferred outflows/inflows of resources, continued

GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and **GASBS No. 60**, *Accounting and Financial Reporting for Service Concession Arrangements*, require the reporting of deferred outflows of resources and/or deferred inflows of resources as follows:

Deferred Outflows of Resources:

- Hedging Derivative Instruments - Accumulated decrease in fair value of hedging derivative instruments (**GASBS No. 53**, paragraph 20)

Deferred Inflows of Resources:

- Hedging Derivative Instruments - Accumulated increase in fair value of hedging derivative instruments (**GASBS No. 53**, paragraph 20)
- Service Concession Arrangements (SCA) - Amount the agency as transferor reports for the difference between the fair value of a new facility purchased or constructed by the operator or the improvement of an existing facility by the operator and any contractual liabilities that the agency as transferor reports under the SCA (**GASBS No. 60**, paragraph 9)
- Service Concession Arrangements - Amount the agency as transferor reports for the difference between up-front payment or present value of installment payments from the operator and any contractual liabilities that the transferor reports under the SCA (**GASBS No. 60**, paragraph 12)

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, requires items to be reported on the Deferred Outflows of Resources and Deferred Inflows of Resources line items. These items are discussed in the **GASBS No. 65 – Items Previously Reported as Assets and Liabilities Overview** section of this document.

Continued on next page

GASBS No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Overview, Continued

Deferred outflows/inflows of resources continued

GASBS No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and **GASBS No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, require Deferred Outflows of Resources and/or Deferred Inflows of Resources to be reported for certain pension-related defined benefit pension plan items.

GASBS No. 69, *Government Combinations and Disposals of Government Operations*, requires Deferred Outflows of Resources to be reported for excess consideration provided by an acquiring government in a government acquisition.

Net position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources.

Net investment in capital assets is the difference between assets and deferred outflows minus liabilities and deferred inflows related to the acquisition of capital assets.

Restricted net position should distinguish between major categories of restrictions. This category consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted net position is the net amount of the assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources that are not included in the calculation of the net investment in capital assets or restricted net position categories.

For additional information regarding these categories, refer to **GASBS No. 34**, **GASBS No. 63**, and the most recent Comprehensive Implementation Guide.

Continued on next page

GASBS No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Overview, Continued

Reporting

The Statement of Net Position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The format should display assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. As noted above, net position represents the difference between all other elements in a Statement of Net Position.

Deferred outflows of resources should be reported on the Statement of Net Position following the asset section and may be added to the total for assets to provide subtotals. Deferred inflows of resources should be reported on the Statement of Net Position following the liabilities section and may be added to the total for liabilities to provide a subtotal.

Disclosures

GASBS No. 63 requires disclosures in the notes to the financial statements for the different types of deferred amounts if amounts are aggregated in the statements and significant components of the total deferred amounts are obscured by aggregation on the face of the statements.

In addition, a disclosure to explain the effect on net position for a significant difference between the deferred outflow of resources or the deferred inflow of resources and the related asset or liability is required.

GASBS No. 65 – Items Previously Reported as Assets and Liabilities Overview

Purpose

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, provides guidance to report certain assets and liabilities different from prior years as either:

- deferred outflows of resources,
- deferred inflows of resources,
- outflows of resources (expenses or expenditures), or
- inflows of resources (revenues).

A summary of some of the requirements for **GASBS No. 65** follow; however, this is not a complete listing and is not authoritative. Refer to **GASBS No. 65** for authoritative and detailed guidance. DOA may request additional information in a separate communication.

Applicability

GASBS No. 65 applies to accounting and financial reporting for financial statements for governmental activities, business-type activities, proprietary funds, and fiduciary funds which report on an economic resources measurement focus and accrual basis of accounting. In addition, the following paragraphs also apply to governmental funds which report on a current resources measurement focus and modified accrual basis of accounting:

- 8-10 regarding nonexchange transactions,
- 11-13 regarding sales of future revenues and intra-entity transfers of future revenues,
- 16-18 regarding leases, and
- 31 regarding the term “deferred.”

Paragraph 30 regarding revenue recognition in governmental funds applies only to governmental funds.

Paragraphs 32 and 33, regarding major fund criteria, only apply to governmental funds and proprietary funds.

Paragraphs 28 and 29, regarding regulated operations, apply only to certain business-type activities and enterprise funds that meet and apply criteria in paragraph 476 of **GASBS No. 62**, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Continued on next page

GASBS No. 65 – Items Previously Reported as Assets and Liabilities

Overview, Continued

Term “deferred”

GASBS No. 65 paragraph 31, requires the term “deferred” to be limited to items reported as deferred outflows of resources or deferred inflows of resources. Therefore, the term “deferred revenue” should no longer be used in financial statements.

Deferred outflows of resources

GASBS No. 65 require the following items to be reported as deferred outflows of resources:

- Deferral on debt defeasance – loss: For current refundings and advance refundings resulting in debt defeasance and the reacquisition price exceeds the net carrying amount of the old debt
- A change in provisions of a capital lease resulting from a refunding, including an advance refunding, of tax-exempt debt by the lessor who then passes through the effect to the lessee and the lease continues to be classified as a capital lease by the lessee which increases the lessee's lease obligation
- For government-mandated and voluntary nonexchange transactions: resources providers transmit to recipients before time requirements are met, but after the other eligibility requirements have been met
- Amount the transferee government paid to the transferor government in an intra-entity sale of future revenues
- Loss on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life
- Mortgage banking activities – direct loan origination costs of loans held for sale until loan is sold
- Mortgage banking activities – fees paid to permanent investors prior to the sale of the loans

Continued on next page

GASBS No. 65 – Items Previously Reported as Assets and Liabilities

Overview, Continued

Deferred inflows of resources

GASBS No. 65 requires the following items to be reported as deferred inflows of resources:

- Deferral on debt defeasance – gain: For current refundings and advance refundings resulting in debt defeasance and the reacquisition price is less than the net carrying amount of the old debt
- A change in provisions of a capital lease resulting from a refunding, including an advance refunding, of tax-exempt debt by the lessor who then passes through the effect to the lessee and the lease continues to be classified as a capital lease by the lessee which decreases the lessee's lease obligation
- For government-mandated and voluntary nonexchange transactions: resources received by recipients before time requirements are met, but after the other eligibility requirements have been met
- Imposed nonexchange revenue transaction amounts received or reported as a receivable before a) the period for which property taxes are levied or b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements
- Amount that a transferor government receives as proceeds in the sale of future revenue transactions, including intra-entity sale of future revenue transactions, except for instances requiring revenue recognition in the period of sale as discussed in **GASBS No. 48**, paragraph 14
- Gain on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life
- Lending activities – points received by lender in relation to a loan origination
- Mortgage banking activities – points received by lender for loans held for investment
- Mortgage banking activities – origination fees, including any portion related to points, received by lender for loans held for sale
- Regulated operations – regulator's rate actions that result in an acquisition of net assets from the regulated business-type activity's customers that is applicable to a future reporting period
- Unavailable revenues in governmental funds

Continued on next page

GASBS No. 65 – Items Previously Reported as Assets and Liabilities **Overview, Continued**

Expenses or expenditures

GASBS No. 65 requires the following items to be reported as expenses or expenditures:

- Debt issuance costs, excluding prepaid insurance costs
 - Lessor's initial direct costs of an operating lease
 - Acquisition costs related to insurance activities
 - In lending activities, direct loan origination costs
 - In lending activities, fees paid related to the purchase of a loan or group of loans
 - In mortgage banking activities, direct loan origination costs for loans held for investment
-

Revenue

GASBS No. 65 requires the following items to be reported as revenue:

- In lending activities, loan origination fees (excluding points) received by lender
 - In lending activities, commitment fees received for a commitment to originate or purchase a loan or group of loans should be recorded as a liability and if the commitment is exercised, recognize as revenue in the period of exercise. If government's experience with similar arrangements indicate the likelihood that the commitment will be exercised is remote, recognize as revenue in period received.
 - In lending activities, fees received related to the purchase of a loan or group of loans
 - In mortgage banking activities, loan origination fees, excluding portion for points, received by lender for loans held for investment
-

GASBS No. 72 – Fair Value Measurement and Application

Overview

GASBS No. 72, *Fair Value Measurement and Application*, is effective for fiscal year 2016 and addresses accounting and financial reporting issues related to fair value measurements. One purpose of this statement is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. A summary of some of the requirements follow; however, this is not authoritative. Refer to **GASBS No. 72** for authoritative and detailed guidance.

GASBS No. 72 revised the **GASBS No. 31** definition of investments as a security or other asset that:

- a) a government holds primarily for the purpose of income or profit, and
- b) has present service capacity based solely on its ability to generate cash or to be sold to generate cash.

The investment designation would be made at acquisition and would remain for the life of the asset, even if usage changes over time. An asset initially reported as a capital asset and later held for sale would not subsequently be reclassified as an investment. If an investment does not have a readily determinable fair value, the statement permits, in certain circumstances, to establish fair value by using the net asset value per share (or its equivalent) of the investment.

GASBS No. 72 also revised the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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GASBS No. 72 – Fair Value Measurement and Application, Continued

Fair value: valuation techniques & approaches overview

Fair value is determined using valuation techniques consistent with one or more of the following three approaches:

- **Market approach:** Uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or groups of assets and liabilities
- **Cost approach:** Reflects the amount that would be required currently to replace the service capacity of an asset
- **Income approach:** Converts future amounts (for example, cash flows or income and expenses) to a single current (discounted) amount

Valuation techniques should be used that are appropriate under the circumstances and for which sufficient data are available, maximize the use of relevant observable inputs and minimize use of unobservable inputs.

Valuation techniques should be consistently applied from period to period. However, a change is appropriate if it results in a measurement more representative of fair value (i.e., new markets develop, new information becomes available, previously used information is no longer available, valuation techniques improve, market conditions change). A revision resulting from a change in valuation technique or its application should be accounted for as a change in accounting estimate.

The fair value hierarchy does not prioritize valuation techniques. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three categories – Level 1, Level 2, and Level 3. The fair value hierarchy gives highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Continued on next page

**Fair value:
valuation
techniques &
approaches
overview,
continued**

Fair Value Hierarchy

- **Level 1 inputs:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. Examples of markets which might be observable include exchange markets, dealer markets, brokered markets, and principal-to-principal markets.
- **Level 2 inputs:** Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 2 inputs include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability, such as: 1) Interest rates and yield curves observable at commonly quoted intervals 2) Implied volatilities, and 3) Credit spreads
 - Market-corroborated inputs
- **Level 3 inputs:** Unobservable inputs for an asset or liability. Level 3 inputs should be used only when relevant Level 1 and Level 2 inputs are unavailable. Governments may use their own data to develop unobservable inputs if there is no information available without undue cost and effort.

Continued on next page

GASBS No. 72 – Fair Value Measurement and Application, Continued

Liabilities

Measurement of the fair value of a liability (i.e., interest rate swap in a liability position) assumes the following:

- Liability is transferred to a market participant at the measurement date.
- Liability would remain outstanding and the market participant transferee would be required to fulfill the obligation.
- Liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

If the liability is held by other parties as assets, the statement provides guidance regarding measuring the fair value of the liability.

Net Asset Value (NAV) per share (or its equivalent)

A government is permitted to establish the fair value of an investment in a nongovernmental entity that does not have a readily determinable fair value by using the net asset value per share (or its equivalent). This method of determining fair value is permitted if the NAV per share (or its equivalent) of the investment is calculated as of the government's measurement date generally in a manner consistent with the FASB's measurement principles for investment companies. Otherwise, an adjustment to the most recent NAV per share (or its equivalent) may be required.

Investments measured at NAV per share (or its equivalent) would be excluded from the fair value hierarchy (Level 1, 2 or 3). The NAV per share (or its equivalent) is not permitted for valuation if it is probable the government will sell the investment at a different amount from the NAV per share (or its equivalent). The statement outlines the criteria that must be met for a probable sale.

Continued on next page

GASBS No. 72 – Fair Value Measurement and Application, Continued

Acquisition value

GASBS No. 72 requires the following types of items received during fiscal year 2016 and later (prospectively) to be reported at acquisition value:

- Donated capital assets
- Donated works of art, historical treasures, and similar assets
- Capital assets received in a service concession arrangement

Acquisition value is the price that would be paid to acquire an asset with equivalent service potential or the amount for which a liability could be liquidated at the acquisition date. GASB believes, for the above assets, an entry-price measurement is more appropriate than an exit-price measurement because the transaction represents the government acquiring the asset.

Exception: **GASBS No. 72** did not amend **GASBS No. 48**, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenue*; therefore, capital assets transferred, purchased, or donated from an entity within the same financial reporting entity (intra-entity) should continue to be reported at the carrying value of the transferor. For a listing of the **[GASBS No. 48 Commonwealth of Virginia Intra-Entity Reporting List](#)**, go to DOA's website and click on the "Financial Statement Directives" link.

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GASBS No. 72 – Fair Value Measurement and Application, Continued

Investment measurements per other statements

The following investments would be measured in accordance with existing literature rather than at fair value:

- Investments in nonparticipating interest-earning investment contracts using a cost-based measure per **GASBS No. 31**
- Investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of **GASBS No. 31** and **GASBS No. 59**.
- Money market investments and participating interest-earning investment contracts that have remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools should be measured at amortized cost per **GASBS No. 31**.
- External investment pools that meet **GASBS No. 79*** requirements to report all investments at amortized cost
- Investments in external investment pools that meet **GASBS No. 79*** requirements to report all investments at amortized cost
- Synthetic guaranteed investment contracts that are fully benefit-responsive should be measured at contract value per **GASBS No. 53**.
- Investments in life insurance contracts that do not meet the definition of a life settlement contract should be measured at cash surrender value.

***Note:** Certain provisions of **GASBS No. 79**, *Certain External Investment Pools and Pool Participants*, are effective for FY 2016 and include amendments to **GASBS No. 72**. If an external investment pool meets all criteria in **GASBS No. 79** to report all investments at amortized cost and does report all investments at amortized costs, the pool's participants must also measure their investment in the external investment pool at amortized cost.

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GASBS No. 72 – Fair Value Measurement and Application, Continued

Equity interests in common stock

Equity interests in common stock as described in **GASBS No. 62** and meeting certain criteria in **GASBS No. 62** should be reported using the equity method of accounting **except** for the following:

- Common stock held by:
 - External investment pools
 - Pension or other postemployment benefit plans
 - Internal Revenue Code Section 457 deferred compensation plans
 - Endowments (including permanent and term endowments) or permanent funds
- Investments in certain entities that calculate net asset value per share (or its equivalent) as provided in **GASBS No. 72** and previously discussed
- Equity interest ownership in joint ventures or component units as provided in **GASBS No. 14**, as amended.

Equity interests in common stock that do not meet both the definition of an investment and the criteria in **GASBS No. 62** for using the equity method should be accounted for using the cost method as provided in **GASBS No. 62**.

Disclosures

Disclosures should be organized by type of asset or liability and the statement provides guidance on what to consider when determining the level of detail and disaggregation, and how much emphasis to place on each disclosure requirement. Recurring fair value measurements of assets or liabilities are those other statements require or permit at the end of each reporting period. Nonrecurring fair value measurements of assets or liabilities are those that other statements require or permit in particular circumstances. The following disclosures are required:

For recurring and nonrecurring fair value measurements:

- Fair value measurement at the end of the reporting period
- Level of fair value hierarchy – Level 1, Level 2, Level 3 (excluding any investments measured at NAV per share or its equivalent)
- A description of the valuation techniques used in the fair value measurement
- If there has been a change in valuation technique that has a significant impact on the result, that change and the reason(s) for making it.

For nonrecurring fair value measurements:

- Reason(s) for the measurement

Continued on next page

GASBS No. 72 – Fair Value Measurement and Application, Continued

Additional disclosures

Additional disclosures are required for investments in entities that meet all of the following criteria: (a) calculate the NAV per share (or its equivalent), regardless of whether the method of determining fair value in **GASBS No. 72**, paragraph 71, has been applied; (b) do not have a readily determinable fair value; and (c) are measured at fair value on a recurring or nonrecurring basis during the period. These disclosures are to address the nature and risks of these investments and whether such investments are likely to be sold at an amount different from NAV per share (or its equivalent). Additional disclosures for each type of investment include:

- Fair value measurement of the investment type and a description of the significant investment strategies of the investee(s) in that type
 - For investments that can never be redeemed with the investees, but a government receives distributions through the liquidation of the underlying assets of the investees: the government's estimate of the period over which the underlying assets are expected to be liquidated by the investees
 - Amount of unfunded commitments related to that investment type
 - General description of the redemption terms and conditions
 - Circumstances in which an otherwise redeemable investment in the type (or a portion thereof) might not be redeemable
 - For otherwise redeemable investments that are restricted from redemption as of the measurement date: the estimate of when the restriction from redemption might lapse; if an estimate cannot be made, disclose that fact and how long the restriction has been in effect
 - Any other significant selling restrictions
 - Fair value of investments for any planned sales at an amount different from NAV per share (or its equivalent) and any remaining actions required to complete the sale
 - If a sale is planned but not all assets have been identified, the government's plans to sell and any remaining actions required to complete the sale
-

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 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.

Continued on next page

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

Accounts Payable, Continued

Modified Cardinal-July and August payments

Agencies must ensure that the “Goods or Services Receipt Date” or “Transaction Date” is less than or equal to June 30, 2016, for Cardinal Vouchers and Cardinal Expense transactions, respectively. Additionally, the “Voucher Post Date” or “Expenditure Approval Date” must be between June 1, 2016, and August 31, 2016, for Cardinal Vouchers and Cardinal Expense transactions, respectively.

Full accrual- September payments

Agencies must ensure that the “Goods or Services Receipt Date” or “Transaction Date” is less than or equal to June 30, 2016, for Cardinal Vouchers and Cardinal Expense transactions, respectively. Additionally, the “Voucher Post Date” or “Expenditure Approval Date” must be between September 1, 2016, and September 30, 2016, for Cardinal Vouchers and Cardinal Expense transactions, respectively.

Note: Payments processed on October 1, 2016, or later are reported via **Attachment 29**.

Year-end closing instructions

DOA’s fiscal year 2016 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 payables 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

Cardinal payable report

The VAPR0520, *Voucher and Expense Accrual Report*, is used to obtain the modified and full accrual payable data. The following parameters are used when executing the report.

Modified Accrual (July and August)

Parameter	July/August-Modified Accrual Payables
Business Unit	All applicable agency AP Business Units
Goods or Services Receipt Date/EX Transaction Date Less Than or Equal To	06/30/16
Payment Date Greater Than	06/30/16
Accounting Date Greater Than or Equal To	07/01/16
Voucher Post Date/EX Approval Date From	06/01/16
Voucher Post Date/EX Approval Date To	08/31/16*

* Do not run report before 09/01/16

Full Accrual (September)

Parameter	September – Full Accrual Payables
Business Unit	All applicable agency AP Business Units
Goods or Services Receipt Date/EX Transaction Date Less Than or Equal To	06/30/16
Payment Date Greater Than	06/30/16
Accounting Date Greater Than or Equal To	07/01/16
Voucher Post Date/EX Approval Date From	09/01/16
Voucher Post Date/EX Approval Date To	09/30/16**

**Do not run report before 10/01/16

Continued on next page

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

Accounts Payable, Continued

Record retention

To support financial statement disclosures, retain all applicable records in conformance with the existing record retention policies.

Records must include all accounts payable and revenue refunds payable. Do not include 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.

Leases

GASBS No. 13 and GASBS No. 62

GASBS No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and **GASBS No. 62**, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, set standards for accounting and reporting operating leases with scheduled rent increases.

Continued on next page

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

Leases, Continued

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.

Lease payment streams for lease agreements containing scheduled increases should incorporate all known rent increases as described in the lease terms whenever the actual future payment amounts can accurately be determined. The lease payment stream should include all lease payment amounts identified at the beginning of the lease term. Examples of payment schedules that meet the above criteria follow.

- Scheduled rent increases to cover economic 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 Topic No. 31200, *Lease Accounting*). **This topic should be reviewed and understood before completing the attachments and supplemental information.** Refer questions to finrept@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.

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 Position 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*.

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

Cash Flow Statement, *Continued*

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.
-

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.

Continued on next page

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

Cash Flow Statement, Continued

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
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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.

Continued on next page

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 the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

GASBS No. 67 **GASBS No. 67**, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, replaces the requirements of **GASBS No. 25**, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as well as the requirements of **GASBS No. 50**, *Pension Disclosures*, as they relate to pension plans that are administered by a trust or equivalent arrangement. This Statement establishes accounting and financial reporting requirements for governments providing pension benefits to employees pursuant to a trust or equivalent arrangement. It also applies to nonemployer governments that have a legal obligation to contribute to covered plans.

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

Pension Disclosures, Continued

GASBS No. 68 **GASBS No. 68**, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, replaces the requirements of **GASBS No. 27**, *Accounting for Pensions by State and Local Governmental Employers*, and **GASBS No. 50**, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of **GASBS No. 27** and **GASBS No. 50** remain applicable for pensions that are not covered by the scope of this Statement.

GASBS No. 73 **GASBS No. 73**, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for accounting and financial reporting by employers and governmental nonemployer contributing entities for defined benefit pensions and defined contribution pensions that **are not** within the scope of **GASBS No. 68**, *Accounting Financial Reporting for Pensions*.

Who is responsible for reporting **GASBS No. 25, 27, 50, 67, 68 and 71?**

- The Virginia Retirement System (VRS) is responsible for complying with **GASBS No. 25** and **GASBS No. 67** requirements.
 - DOA is responsible for reporting **GASBS No. 27**, **GASBS No. 68** and **GASBS No. 71** 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 at the CAFR level in the Comprehensive Annual Financial Report (CAFR).
 - Additionally, VRS will provide the necessary financial statement and footnote disclosure information. Agencies that issue individually published, audited financial statements are also responsible for reporting all applicable net pension obligations in the appropriate funds of the agency's financial statements.
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Additional Guidance for Preparation of GAAP Basis Fund Financial Statement Templates, Continued

Fluctuation Analysis Guidelines and Materiality Scopes

Fluctuation analyses

Fluctuation analyses are included in 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. Significant 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 and deferred outflows of resources 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. A formula has been added to the fluctuation tabs for **Attachments 9-12** to help in determining the materiality scopes.

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. The explanations should be included on the appropriate template tab.

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

The following table 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

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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.

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