Financial Reporting Guidelines

Procedures for Preparing the Financial Statement Template

The attached procedures provide Higher Education Institutions (HEIs) with accounting and financial reporting entries for transactions associated with various financing programs. Having all HEIs follow consistent procedures for these programs will facilitate proper reporting in the Commonwealth's Comprehensive Annual Financial Report (CAFR). These procedures should be used when preparing the financial statement template for FY 2018 and thereafter. These procedures should be used when preparing the institution's individually published financial statements; however, the specific line items for the individually published financial statements are not provided. The procedures also include certain information regarding amounts reported in Cardinal. The guidelines are for the following programs:

Department of Treasury Reimbursement Programs – refer to pages 2 - 7

- **Virginia College Building Authority (VCBA) 21st Century**
- **VCBA Equipment Trust Fund (ETF)**
- **General Obligation Bonds (GOB) – 9b**
- **Virginia Public Building Authority (VPBA)**

VCBA Pooled Bonds – refer to pages 8 - 10

Virginia Energy Leasing Program (VELP)/Energy Performance Contracts – refer to page 11

Treasury's Reimbursement Programs
Overview

This section is to discuss the following reimbursement programs administered by the Department of Treasury (Treasury):

- VCBA 21st Century
- VCBA Equipment Trust Fund
- General Obligation Bonds (GOB) – 9b
- Virginia Public Building Authority

VCBA 21st Century: Each HEI receives a specified amount of bond proceeds to finance capital projects. The HEIs do not report the bonds payable in the HEI's financial statements. The debt is reported by the Virginia College Building Authority (VCBA). HEIs must incur the expenses which are reported in fund 08170 in Cardinal and then request reimbursement from Treasury. After Treasury reviews the request, the reimbursement is recorded in fund 08170 account 439720, Proceeds-Sale Revenue Bonds. This is a reimbursement based program; therefore, Cardinal usually has a negative cash balance in fund 08170. (Exception: Fund 08171 was used for Business Unit 88500, Institute for Advanced Learning and Research for FY 2018.)

VCBA Equipment Trust Fund (ETF) acquisitions are considered to be purchases. Each HEI owns the equipment immediately upon purchase and has no liability to report on the HEI's financial statements. Each HEI is allocated a specified amount to spend. The debt to fund this program is reported by the VCBA. As HEIs incur expenses, the HEI notifies Treasury, and Treasury then reimburses the HEIs for the amount spent. Treasury receives a wire from the Trustee (Off Cardinal) and deposits the reimbursement in the HEI's Fund 03000, account 255470, Susp. Acct-Deposit Pend Distrib., or in the account requested by the HEI. HEIs process transactions to distribute the money to the proper account(s).

General Obligation Bonds (GOB): Each HEI receives a specified amount of General Obligation Bond (GOB-9b) proceeds to finance capital projects. The HEIs do not report the bonds payable in the HEI's financial statements. This is debt of the Commonwealth. HEIs must incur the expenses which are reported in fund 08110 in Cardinal and then request reimbursement from Treasury. After Treasury reviews the request, Treasury records the reimbursement in fund 08110 account 439710, Proceeds from Sale of GOB. This is a reimbursement based program; therefore, Cardinal usually has a negative cash balance in fund 08110.

Virginia Public Building Authority (VPBA): This is similar to the GOB program; however, the activity is reported in fund 08200 and account 439720 on Cardinal.

Note: The above information regarding how information is recorded on Cardinal applies to most institutions.

Treasury's Reimbursement Programs
Current Year Reporting Guidelines

Below is a summary of the financial statement template guidelines for FY 2018:

Program	**Revenue (see Note A)**	**Due froms (year-end accruals) (see Note B)**
VCBA 21st Century	Reimbursements from Treasury (plus accruals/less reversals)	Unreimbursed expenses as of year-end (negative cash & payables)
VCBA ETF	Reimbursements from Treasury (plus accruals/less reversals)	Unreimbursed expenses as of year-end (negative cash & payables)
GOB	Reimbursements from Treasury (plus accruals/less reversals)	Unreimbursed expenses as of year-end (negative cash & payables)
VPBA	Reimbursements from Treasury (plus accruals/less reversals)	Unreimbursed expenses as of year-end (negative cash & payables)

Note A: Revenue should be calculated as follows:

Cash basis reimbursement – FY 2018
Less: Reversal of prior year's "Due from"
Add: Accrual of current year's "Due from"
Total revenue - FY 2018

Note B: Since the amounts reported by the HEIs and Treasury as due froms/due tos at year-end should agree, additional guidance must be provided to determine the amounts to accrue. The additional guidance is as follows: *Any reimbursement requests processed by Treasury in July and August 2018 must be analyzed by HEIs, prior to submission to Treasury, to determine what amounts are for goods/services received on or prior to June 30, 2018. This should be the same amount as the year-end unreimbursed expenses (negative cash and payables). There could be some payables after the August cut-off related to these programs (i.e., retainage payable); however, there has to be a reasonable cut-off in order to ensure due froms/due tos reported in the CAFR agree.*

Nongeneral Fund Payments to the Treasury Board for Debt Service on Bonds Issued under VCBA 21st Century & ETF Programs: Each year HEIs must pay the Treasury Board for a portion of the debt service on bonds issued for the VCBA 21st Century & Equipment Trust Fund programs from nongeneral funds. For example, Chapter 836, 2017 Acts of Assembly, items 281 E4 and E5 required a total of $30,011,174 to be paid by the HEIs for FY 2017. For most HEIs, these payments were made to the Treasury Board via account 609830, Cash Transfer Out – Non-GF, on Cardinal. Consistent with the prior year, all institutions should report these payments to the Treasury Board on the Payments to Treas. Bd. – VCBA 21st Cent. & Eqt. Pgms. financial statement template line item. This line item is reported as an expense in the CAFR. DOA's position is that this activity is most appropriately reported as a nonoperating expense in the institution's individually published financial statements.

Treasury's Reimbursement Programs
Financial Statement Template Line Items

Below is a summary of the current year financial statement template line items.

Program	**FY 2018 financial statement template line items–Assets (see Note C)**
VCBA 21st Century	Due from Component Units (VCBA 21st Century)
VCBA ETF	Due from Component Units (VCBA ETF)
GOB	Due from Primary Government (GOB)
VPBA	Due from Primary Government (VPBA)

Program	**FY 2018 financial statement template line items–Revenue (see Note C)**	**CAFR line items (see Note D)**
VCBA 21st Century	Revenue from VCBA (21st Century)	Program Revenue – Capital Grants & Contributions
VCBA ETF	Revenue from VCBA (ETF)	Program Revenue – Operating Grants & Contributions
GOB	Capital Contributions from Treasury (GOB)	Program Revenue – Capital Grants & Contributions
VPBA	Capital Contributions from Treasury (VPBA)	Program Revenue – Capital Grants & Contributions

Note C: Even though Treasury administers all of these programs, the different line items represent the required presentation in the CAFR from Treasury's perspective. Since the Virginia College Building Authority (VCBA) and the HEIs are all reported as component units in the CAFR, VCBA will report a Due to Component Units in the CAFR equal to the amounts reported by the higher education institutions as a Due from Component Units. The GOB and VPBA programs are reported in the CAFR as part of the primary government's capital project funds. The capital project funds will report a Due to Component Units equal to the amounts reported by the HEIs as a Due from Primary Government. Due tos/froms reported in the CAFR must equal across all funds. All four programs are primarily used for capital asset/construction costs; however, since VCBA is a component unit, this revenue is reported on different financial statement template line items to identify revenue from another component unit.

Note D: Except for the Revenue from VCBA (ETF), these revenue amounts roll into the Program Revenue – Capital Grants & Contributions line item in the CAFR since they are for capital projects. The Revenue from VCBA (ETF) rolls into the Program Revenue – Operating Grants & Contributions CAFR line item because even though this revenue is to be used for equipment, some purchases may not meet the capitalization thresholds.

Treasury's Reimbursement Programs
"Due from" Amounts for FY 2018
Analysis of July & August 2018 - Reimbursement Requests

HEIs must submit reimbursement requests for unreimbursed expenses as of year-end to be received by the Department of Treasury no later than **August 29**. The reimbursement requests may not include any due dates past August 31 to ensure the requests are processed by the end of August. Treasury will require each reimbursement request for July and August to identify the amounts that are for unreimbursed expenses as of year-end (goods/services received on or prior to year-end) versus those that are for current year activity. Treasury will not process any reimbursement requests during July and August without this information. Adequate supporting documentation of these amounts must be available for the Auditor of Public Accounts (APA), Treasury, or Department of Accounts (DOA) if requested. In addition, reimbursement requests for the ETF program must be approved by the State Council of Higher Education for Virginia (SCHEV) before being sent to Treasury for reimbursement. These reimbursements need to be sent to SCHEV prior to **August 23** to ensure the requests are processed by Treasury in time to meet the August 31 cutoff.

Treasury's Reimbursement Programs – Example Entries

Please use the following table as guidance in preparing the entries for the institution for the following programs:

- VCBA 21st Century
- VCBA Equipment Trust Fund
- General Obligation Bonds (GOB) – 9b
- Virginia Public Building Authority

(**Note**: In some cases the specific financial statement template (FST) line item is not provided. Use professional judgment to determine the appropriate FST line item. Also, the example entries below are not all inclusive. For example, entries are not provided for the reversal amounts. All required entries must be determined by the institutions.)

College/University FST Example Entry	Activity
Expenses Cash To record expenses for Treasury's Reimbursement Programs	Institution makes purchase in accordance with Treasury's/VCBA's guidelines. (Purchases under the ETF program must be approved by SCHEV also.)
Capital Asset Expenses To reclassify capitalizable equipment purchased	Institution purchases approved equipment subject to reimbursement by Treasury/VCBA and purchase meets capitalization criteria.
Cash Revenue (See Note E on page 7) To record reimbursement from VCBA/Treasury	Treasury/VCBA reimburses the institution for the purchases.
Capital Assets (for capitalizable assets) Expenses (for noncapitalizable assets) Accounts Payable To record expenses that represent payables at June 30	Institution identifies payables at June 30.
"Due from" (See Note E on page 7) Revenue (see Note E on page 7) To record a "Due from" the Commonwealth (Primary Government) or VCBA (Component Unit) for unreimbursed expenses as of year-end (goods/services received on or prior to June 30) **and** reimbursed by Treasury/VCBA in July or August	Institution receives reimbursement in July or August for goods/services received on or prior to June 30.

Treasury's Reimbursement Programs – Example Entries, *continued*

Note E: The specific FST line items for the "Due from" and revenue line items depend on the program.

Program	**FY 2018 financial statement template line items – "Due froms"**	**FY 2018 financial statement template line items – Revenue**
VCBA 21st Century	Due from Component Units (VCBA 21st Century)	Revenue from VCBA (21st Century)
VCBA ETF	Due from Component Units (VCBA ETF)	Revenue from VCBA (ETF)
GOB	Due from Primary Government (GOB)	Capital Contributions from Treasury (GOB)
VPBA	Due from Primary Government (VPBA)	Capital Contributions from Treasury (VPBA)

VCBA Pooled Bond Program

The Pooled Bond Program was created by the 1996 Session of the General Assembly and the first bonds were issued in September 1997. Proceeds from the sale of bonds under this program are used to finance or refinance specified capital projects. These 9(d) bonds are payable from institution revenues, not General Fund appropriations. As expenses are incurred, the Trustee is notified and must reimburse the HEIs for the amount spent. Because of the delays in processing requisitions, there may be a negative cash situation, as with GOB and 21st Century entries. Please use the following table as guidance in preparing entries for the Pooled Bond Program.

(**Note**: In some cases, the specific FST line item is not provided. Use professional judgment to determine the appropriate FST line item. Also, the example entries below are not all inclusive. For example, entries are not provided for the reversal amounts. All required entries must be determined by the institutions.)

College/University FST Example Entry	Pooled Bond Activity

Restricted Cash
Expenses (for closing costs except prepaid insurance -see Note F)
Note Payable (bond discounts, see Note G)
    Note Payable (premiums, see Note G)
    Note Payable **(DO NOT use Bonds Payable because Pooled Bond is an actual Note between VCBA and the institution*)***
 	
<u>Note F</u>: <u>GASBS No. 65</u> requires debt issue costs, excluding prepaid insurance costs, to be expensed. Prepaid insurance should be reported as an asset (i.e., Prepaid Items FST line item) and amortized.
 	
<u>Note G</u>: Bond discounts/premiums should be reported on the Notes Payable line item and amortized over the life of the note.
	Record the agreement between VCBA and the HEI

Restricted Cash Revenue	Record accrued interest revenue
Expenses (capitalizable and noncapitalizable assets) Restricted Cash	Expenses incurred on capital project
Capital Asset (by category for capitalizable assets) Expenses	Reclassify expenses for capitalizable assets
Note Payable (Principal retirement -for principal payment) Expenses (Interest on long term debt - for interest payment) Cash	To pay principal and interest payments using cash from the HEI's operating revenue

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VCBA Pooled Bond Program, *continued*

College/University FST Example Entry	Pooled Bond Activity
Notes Payable (amortize premium) Expenses (interest)	Entry to amortize the premium – for notes payable with an unamortized premium
Capital Assets (by category for capitalizable assets) Expenses (noncapitalizable assets) Accounts Payable	Institution identifies payables at June 30th
Capital Assets (by category) and/or Expenses* Accrued Interest Payable *Note: The Institution must determine the debit side of this entry based on the institution's interest capitalization policy.	To record accrued interest payable as of June 30th

VCBA Pooled Bonds – Federal Taxable – Build America Bonds (BABs): BABs provide a federal subsidy on interest payments. The interest subsidy should be reported on the FST as "Program Revenue – Operating Grants and Contributions" and the interest expense should be reported on the "Operating and Nonoperating Expenses" FST line item. In other words, **do not net** the interest subsidy with the interest expense. This guidance is consistent with the response to question Z33.25 in the Implementation Guide No. 2015-1. In addition, a receivable should be reported for the following subsidies to be received after year-end: 1) Subsidy portion of the interest payments due and paid during FY 2018 and the subsidy to be received after year-end, and/or 2) Subsidy portion of the year-end accrued interest payable that represents the subsidy to be received after year-end. These receivables should be reported on the "Receivable, Net" FST line item and they should be included in the interest receivable category in the Attachment HE-10 TAB 2. Institutions should work together to determine consistent reporting in the individually published financial statements.

VCBA Pooled Bond Refundings: GASBS No. 23, as amended by GASBS No. 86, must be followed to properly report refundings. GASBS No. 23 requires the difference between the reacquisition price and the net carrying amount of the old debt to be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The entries below are some simple examples of the entries needed; however, refer to GASBS No. 23** for additional guidance. For any refundings, all relevant information pertaining to the refunding transactions will be provided by VCBA staff upon request. This information should be used in calculating the required GASBS No. 23 adjustments. If necessary, contact VCBA staff for information regarding the refundings.

****Note**: GASBS No. 53 includes a modification of the net carrying amount of the old debt if there is a derivative instrument that is an effective hedge of the old debt. Based on discussions with Treasury, there should be no derivative instruments related to VCBA Pooled Bonds.

VCBA Pooled Bond Program, *continued*

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, requires the deferral on debt defeasance – loss to be reported as deferred outflows of resources and the deferral on debt defeasance – gain to be reported as deferred inflows of resources.

Example 1)	Reacquisition price (repay previously issued debt)	$100,000
	Net carrying amount of old debt	90,000
	Loss on refunding	$ 10,000

Notes Payable (old debt)	$90,000		To record the refunding of the old debt when there is a loss
Deferred Outflows of Resources (loss)	$10,000		
Cash		$100,000	

Interest Expense (see Note H)	$1,000		Annual entry to record the amortization of the loss (This example assumes 10 years as the amortization period.)
Deferred Outflows of Resources		$1,000	
Note H: Debit the operating and nonoperating expense line item on the financial statement template.			

Example 2)	Reacquisition price (repay previously issued debt)	$100,000
	Net carrying amount of old debt	110,000
	Gain on refunding	$ 10,000

Notes Payable (old debt)	$110,000		To record the refunding of the old debt when there is a gain
Cash		$100,000	
Deferred Inflows of Resources (gain)		$10,000	

Deferred Inflows of Resources	$1,000		Annual entry to record the amortization of the gain (This example assumes 10 years as the amortization period.)
Interest Expense (see Note I)		$1,000	
Note I: Credit the Operating and Nonoperating expense line item on the financial statement template.			

Note: GASBS No. 86, *Certain Debt Extinguishment Issues*, requires any remaining prepaid insurance related to the old debt to be included in the net carrying amount of the old debt for calculating the loss or gain on refunding. In addition, Implementation Guide No. 2015-1 question Z.23.1 requires interest accrued on the old debt up until the date of the refunding to be expensed. The above example entries assume there is no remaining prepaid insurance on the old debt and the reacquisition price does not include an amount related to accrued interest on the old debt.

Virginia Energy Leasing Program/Energy Performance Contracts

The Treasury Board administers the lease financing program for energy efficiency projects. These projects are intended to reduce energy consumption and demand or allow for the use of an alternative energy source. In some cases, these projects are funded through escrow financing. A bank account is established for the institution to purchase equipment or pay for other project expenses over a certain period of time. This type of funding should be reported as installment purchase obligations. Below are FST example entries of how to record activity related to the escrow funding of these projects.

Note: In some cases, the specific financial statement template (FST) line item is not provided. Use professional judgment to determine the appropriate FST line item. Also, the example entries below are not all inclusive. For example, entries are not provided for the reversal amounts. All required entries must be determined by the institutions. See also the CAPP Topic No. 30320, *Energy Performance Contracts*, for additional information.

Restricted Cash Installment Purchase Obligations	To record escrow funds to be used by the HEI for the energy efficiency projects

Expenses Restricted Cash	Payments to contractors from the escrow funds
Capital Assets Expenses	To reclassify expenses that meet capitalization threshold

Interest Expense (see **Note A**) Installment Purchase Obligations Cash **Note A**: Debit the operating and nonoperating expense line item on the financial statement template.	Payment on installment purchase obligation

Restricted Cash Revenue	Record investment earnings on escrow funds.

Capital Assets (for capitalizable equipment) Expenses (for noncapitalizable equipment) Accounts Payable	Institution identifies payables at June 30.