

Statewide Financial Statements Guidance

http://www.myfloridacfo.com/aadir/statewide_financial_reporting/CAFR.htm

Revised July 31, 2009

Statewide Financial Statements Guidance

Table of Contents

<u>Checklist Item</u>	<u>Description</u>	<u>Page No</u>
1	Fund Balances	4
2	Year-end Reporting of Transfers (Intra-agency)	4
3	Year-end Reporting of Transfers (Inter-agency)	4 – 6
4	Cash Balances	6
5	Investments in State Treasury	6
6	Beginning Equity	6 – 7
7	GL 546XX Collections, General Revenue	7
8	Depreciation	7
9	Fund Balance Reserves	8 – 10
10	GL 536XX	10
11	Compensated Absences	10
12	Fixed Assets	10 – 11
13	Long-Term Debt	11
14	Analytical Procedures	11
15	Other Guidance	11
16	Fund Questionnaires	11
17	Statewide Financial Statement Forms	11
18	Component Units	12
19	Schedule of Expenditures and Federal Awards (SEFA)	12
20	SAS 99	12
21	Budgeted Revenue Amounts	12
22	Component Units GASB Notification	12
23	Revolving Funds	12
24	Interfund Loans Receivables and/or Payables	13 – 14
25	Public Deposit Requirements	14

Statewide Financial Statements Guidance

Table of Contents

<u>Other Guidance</u>	<u>Page No</u>
Late Payment Interest	15
Residual Equity Transfers	15
Deferred Revenue – Other Grants	15 – 17
Escheat Property – GASB 21	18 – 19
Accounting for Risk Financing- GASB 10	20 – 21
Proprietary Fund Debt Refunding- GASB 23	21 – 22
Accrual of Taxes Receivable- GASB 22	22 – 23
Proprietary Fund Type Revenue and Expense	23 – 24
Capital Grants and Contributions- Governmental and Proprietary	24
Revenue and Expense/Expenditure Recognition	25 – 26
State Treasury Investment Pool Interest and Administrative Fee	26 – 27
Impairment of Capital Assets and Insurance Recoveries	27 – 31

Statewide Financial Statements Guidance

Fund Balances

No additional written guidance at this time. Contact the Statewide Financial Reporting Section for assistance.

Year-end Reporting of Transfers & Interfund balances – (Intra-agency)

Balances within a 6-digit FID

Include information to support these balances on the forms (the due-to/from and transfer database) you submit to SFRS. Your due-to/from and transfer forms should indicate the same fund for both sides when a balance is intra-fund (between BE's same fund). SFRS will use the information provided on the forms to develop elimination entries.

Transfers between 6-digit FID's within an Agency: 655XX, 657XX, 755XX and 757XX

Each agency is responsible for having the transfers within its own agency (intrafund transfers) in balance at year-end closing. Completed Forms 13 and 14 are required for all transfers between funds within a department. In addition, each agency should complete Forms 15 and 16 for Federal funds transfers between funds within an agency.

- 655XX Federal Transfers In within Agency must = 755XX Federal Transfers Out within Agency
- 657XX Transfers In from within Agency must = 757XX Transfers Out within Agency

When reconciling the intrafund transfers, do not use GL Code 758XX to reconcile. The other side of this transfer is shown in General Revenue Unallocated. For purposes of reconciling intrafund transfers it should be considered the same thing as a transfer to another agency.

(Examples of transfers below relate to intra-agency and inter-agency transactions)

Year-end Reporting of Transfers & Interfund balances - (Inter- agency)

What is a transfer?

A transfer is the movement of cash from one fund to another that is not payment for goods and services.

Examples of transactions that should be considered transfers:

- Payment of the General Revenue Service Charge (GL 758XX).
- Payment of overhead earnings sent to General Revenue (GL 758XX).
- Administrative Assessments.
- Movement of funds collected in one fund but disbursed from another fund.
- Money received from DMS from the sale of surplus property. (See detail below)
- Payments to internal service funds that are not based on services provided but are in effect a subsidy to the internal service fund.
- Fixed assets or capital assets purchased by a governmental fund, but recorded as an asset of a proprietary fund at the time it is purchased. This is an operating subsidy.
- Movement of capital assets between funds (GL 652XX/752XX).

Statewide Financial Statements Guidance

- Movement of fund equity between funds.
- Payment received from DMS auctions.
- Cash payment to support programs in other funds/agencies.
- Cash payment to General Revenue for the Statewide Cost Allocation Plan.
- Cash payment for tobacco settlement.
- Payment to the State Board of Administration for debt service.
- Distribution of direct or indirect grant in aid to another agency.
- Funds sent to the unclaimed property fund at the Department of Financial Services.
- Funds sent to the Division of administrative Hearings:
 - 729700-10-1-000227
 - 729700-20-2-510150
- Payments to the State Personnel System Trust Fund at DMS for personnel assessments:
 - 720000-20-2-678001
- Payment to the State Risk Management Trust Fund at the Department of Financial Services for property insurance and casualty insurance:
 - 430000-10-2-078001
- Payments to the Department of Financial Services for Workers Compensation.
- Payments to the Agency for Workforce Innovation for Unemployment Compensation.
- Appropriations made in one fund that are for use by another fund.
- Refunds from a fund, that is not a SWGF=74 and is not going to be used to reestablish budget.
- State grants between funds.
- Insurance claims received from Department of Financial Services.

Examples of transactions that should not be considered transfers:

- Payments to DMS for services they provided such as SUNCOM, building rent, use of aircraft and automobiles, etc.
- Payment to the Florida Retirement System.
- Payments to the Department of State for the Administrative Weekly, copies of statute books, Administrative rules or archives.
- Payment of tolls to DOT.
- Payments to internal service funds that are based on actual services provided not just a Departmental assessment.
- Payment to or from state universities and community colleges.
- Payment of administrative fee to the State Treasury for investments (GL 758XX).
- Payment of fire marshal fees to DFS for building inspections.
- Payment to agencies of State Owed Debt (SOD) collected by the Lottery from Lottery winners.
- Payment to the Department of Legal Affairs for legal services.
- Repayment of loans from another fund.
- Payment to Justice Administrative Commission for legal fees.
- There are no transfers to or from a fund that is a SWGF = 74.
- Corrections of disbursement made from the incorrect fund or expense redistribution to other funds (JT-1).

Transactions that use a transfer category code may or may not be a transfer for financial statement purposes. Likewise transactions that do not carry a transfer category code may be considered a transfer for financial statement purposes.

Statewide Financial Statements Guidance

Transfers between Agencies: 659XX and 759XX

Transfers between agencies require that agencies complete SWFS forms 9 and 10. You must complete separate forms for Federal funds transfers and other transfers between agencies.

Federal Transfers between Departments: 656XX and 756XX

Transfers of Federal Funds between agencies require that agencies complete SFRS forms 11 and 12. You must complete separate forms for Federal funds transfers and other transfers between agencies.

Proceeds from Sale of Surplus Property Recorded as Transfer-in

Proceeds from the sale of surplus property, as defined in section 273.055, F.S., shall be recorded as a transfer-in from DMS and not as expenditure refunds, in accordance with GAAP and Florida Statutes. Section 273.055(5), F.S. was amended in 2006 removing the spending authority provision for these proceeds. Budget authority to expend the proceeds received from the sale must be obtained through the appropriations process. The appropriate revenue Source code for transfers-in from DMS is 001500 Transfers, or 001520 – Transfers – Subject to Service Charge.

Cash Balances

Any deposits made, but not reported in the State Treasury at June 30th (deposits in transit) should be recorded as Cash on Hand (GL 111XX).

Investments in State Treasury

	GL 141XX, Pooled Investments w/State Treasury
+	GL 225XX, Restricted Investments w/State Treasury
+	GL 241XX, Long Term Investments – State Treasury
	<hr/>
	Pool 1 Investments (Trust Fund) reported by the State Treasury

GL 143XX, Special Investments w/State Treasury = Pool 2 (SPIA) Investments reported by the State Treasury

Amounts recorded in these GLs should not include the interest accrued for June.

Beginning Equity

After Statewide Financial Statements are completed each year we send the agencies post audit balance sheets for each fund. The agencies are to consider these their beginning balances for the current year. Each agency is to adjust their beginning fund balance or beginning retained earnings to the balance shown on these year-end reports.

Governmental Funds (SWGf = 10, 20, 30, 40 or 72)

The ending equity amounts on the year-end reports must in total equal the amounts reported in GLs 549XX and 55XXX on your current year trial balance.

Proprietary Funds (SWGf = 50 and 60)

The ending equity amounts on the year-end reports must in total equal the amounts reported in GLs 538XX and 539XX on your current year trial balance.

Pension and Other Employee Benefit Trust Funds, Private Purpose Trust Funds, or Investment Trust Funds (SWGf = 71, 73 or 76)

Statewide Financial Statements Guidance

The ending equity amounts on the closing year-end reports must in total equal the amounts reported in GLs 549XX and 558XX on your current year trial balance.

NOTE: DO NOT CONSIDER THE ADJUSTMENTS POSTED DURING THE PREVIOUS YEAR BY THE STATEWIDE FINANCIAL REPORTING SECTION AS PRIOR PERIOD ADJUSTMENTS.

What is a prior period adjustment?

A prior period adjustment is a correction of an error in previously issued financial statements. This would include:

- Mathematical errors.
- Mistakes in applying accounting principles.
- Items that were overlooked, such as:
 - Items that should have been included in the financial statements but were not.
 - Items included in the financial statements that should not have been.

Corrections that would not be considered prior period adjustments:

- Changes in estimates.
- Immaterial prior period adjustments.
- Adjustments made by the Statewide Financial Section to an agency's funds during the financial statement preparation process.

For statewide financial statements, the materiality level to use is \$1 million. Prior period adjustments under this threshold should be run through current year operations. Balances in a prior period adjustment GL must be supported by Form 28 to explain the adjustment.

- For Governmental funds use GL 542XX.
- For Proprietary funds use GL 532XX.

GL 546XX Collections, General Revenue

When preparing your little generals for year-end close out, GL 546XX Collections, General Revenue, should be closed out against the revenue account(s) that were used to accumulate the balance. The balance of GL 546 MUST be zero after this process.

Revenue is received:		<u>Debit</u>	<u>Credit</u>
546XX Collections, General Revenue		XXX	
6XXXX Revenue Account			XXX
Year-end close out of GL 546XX:		<u>Debit</u>	<u>Credit</u>
6XXXX Revenue Account		XXX	
546XX Collections, General Revenue			XXX

Depreciation

For additional information relating to depreciation, refer to the following documents on the SFRS website: Capital Asset Policy, Comptroller Memorandum No. 01, Capital Asset Overview, and Capital Asset Accounting Entries.

Statewide Financial Statements Guidance

Fund Balance Reserves

This Checklist Item relates only to fund balance reserved for Governmental Funds (Statewide GAAFR Funds (SWGf) = 10, 20, 30, 40 or 72).

What is a reserve? It is an indicator that a portion of the fund balance is not available for appropriation or is legally segregated for some future use. When reserving fund balance, do not reserve more fund balance than there is fund balance (i.e. the unreserved fund balance should not have an atypical balance (debit balance) after the operating accounts are closed for the year).

The following are the only valid fund balance reserves to be used for statewide financial statements and a description of what they are to be used for. They are not to be used for proprietary funds or agency funds.

GL 551XX: Fund Balance Reserved for Encumbrances

This should be used to reserve any certified forward type B's approved by the Executive Office of the Governor (EOG). Due to timing differences an estimate should be used to record this amount. At year-end GL 551XX must be immaterially different from the amount approved by EOG. If after the EOG approval the estimate is found to be materially different from the actual an adjustment must be made.

GL 552XX: Fund Balance Reserved for Inventories

For statewide financial statement purposes, inventories are to be reported using the consumption method for governmental funds. Under the consumption method, the inventories are reported as an asset when they are purchased and the recognition of expenditure is deferred until the period in which the inventories are actually consumed.

	<u>Debit</u>	<u>Credit</u>
Purchase of inventories:		
17XXX Inventory	XXX	
XXXXX Cash or Payable		XXX
549XX Fund Balance Unreserved	XXX	
552XX Fund Balance Reserved for Inventories		XXX
Consumption of inventories:		
711XX Expenditures, Current	XXX	
17XXX Inventory		XXX
552XX Fund Balance Reserved for Inventories	XXX	
549XX Fund Balance Unreserved		XXX

At year-end GL 552XX must equal GL 17XXX. If the amounts do not agree, an adjustment must be made.

GL 554XX: Fund Balance Reserved for Advances to Other Funds

This should be used to reserve any advances to other funds within an agency or to other agencies. This should NOT be used to reserve any long-term advances/loans to component units or other local governments. At year-end GL 554XX must equal the sum GL 251XX, Advances to Other Funds and 257XX, Advances to Other Funds within Department.

GL 555XX: Fund Balance Reserved for Long-Term Receivables

This should be used to reserve any long-term receivables, including long-term advances/loans to component units or other local governments. This should NOT be used to reserve any advances

Statewide Financial Statements Guidance

to other funds within an agency or to other agencies. At year-end GL 555XX must equal the sum of GL 253XX, Loans/Notes Receivable from Other Governments, GL 254XX, Other Loans and Notes Receivable, GL 255XX, Advances to Other Governments/Entities, GL 256XX, Long-term Interest Receivable, GL 258XX, Advances to Component Units, and GL 259XX, Allowance for Uncollectibles, less any deferred revenues related to long-term receivables.

GL 556XX: Reserved for Fixed Capital Outlay & Grants in Aid – FCO

This should be used to reserve by category the certified forward amount as of the current fiscal year-end of which an agency has assets on hand for categories 08XXXX, Fixed Capital Outlay and 14XXXX, Grants in Aid to Local Governments/Nonprofit Organizations – Fixed Capital Outlay. The reserve should be increased by the receivables and reduced by the payables recorded in categories 08XXXX and 14XXXX.

Agencies should not establish a reserve for a fixed capital outlay appropriation if they do not have related assets on hand to use against the reserve. A reserve for fixed capital outlay should not be established for reimbursement grants in which agencies do not receive the moneys until after the expenditures are made.

Example: The Governor's Office certifies forward \$2 million in category 080025 as of the current fiscal year-end. However, the agency has only received \$1.5 million as of fiscal year-end and will not receive the remaining balance until the project is completed in the future.

Record reserve:		<u>Cat</u>	<u>Debit</u>	<u>Credit</u>
549XX	Fund Balance Unreserved		1.5	
556XX	Reserved for Fixed Capital Outlay & Grants in Aid – FCO	080025		1.5
Record receivable of \$5,000:		<u>Cat</u>	<u>Debit</u>	<u>Credit</u>
151XX	Accounts Receivable	080025	5	
722XX	Expend. – Fixed Capital Outlay	080025		5
549XX	Fund Balance Unreserved		5	
556XX	Reserved for Fixed Capital Outlay & Grants in Aid – FCO	080025		5
Record payable of \$125,000:		<u>Cat</u>	<u>Debit</u>	<u>Credit</u>
722XX	Expend. – Fixed Capital Outlay	080025	125	
311XX	Accounts Payable	080025		125
556XX	Reserved for Fixed Capital Outlay & Grants in Aid – FCO	080025	125	
549XX	Fund Balance Unreserved	080025		125

GL 556XX, category 080025, total at fiscal year-end is \$1.38 million (Credit).

GL 557XX: Fund Balance Reserved for Debt Service

This should be used to reserve the total fund balance in the debt service funds (SWGF 40).

GL 558XX: Fund Balance Reserved for Permanent Fund

This should be used to reserve the total fund balance in the permanent funds (SWGF 72) when appropriate.

GL 559XX: Other Fund Balance Reserved

This should be used to reserve deferred charges and any other required reserves. If GL 559XX is used to reserve things other than deferred charges, a SWFS Form 26 (Other Fund Balance Reserved) is required to be submitted explaining why it is necessary to establish the reserve, citing statutory or other legal references. At year-end GL 559XX must equal or be greater than

Statewide Financial Statements Guidance

GL 252XX, Deferred Charges. Reserves recorded in GL 559XX are generally immaterial in nature. In the event these reserves become material, agencies should notify the Statewide Financial Reporting Section.

GL 536XX

No additional written guidance at this time. Contact the Statewide Financial Reporting Section for assistance.

Compensated Absences

Compensated absences should be recorded as follows:

Governmental Funds

Short-term portion:

60 day leave payout (between 7/1 and 8/31) – recorded in GL 386XX in the governmental fund itself (SWGf 10, 20, 30, 40, or 72)

305 day leave usage and payout - (9/1 – 6/30) – recorded in GL 386XX in GAAFR fund 90

Long-term portion:

>365 days – recorded in GL 486XX in 90 GAAFR fund

Proprietary Funds

The total short-term portion should be recorded in GL 386XX and the long-term portion in 486XX in the proprietary fund.

Fixed Assets

In *governmental funds* (SWGf 10, 20, 30, 40 or 72), do not use GL codes 721XX “Expend - Operating Capital Outlay” or 722XX “Expend - Fixed Capital Outlay” to record disbursements for property items that are not going to be capitalized and reported as capital assets by the State of Florida, even if the State may be using the item. Amounts recorded in these GL codes during the fiscal year that are not capitalized should be reclassified (by category) to GL code 711XX “Expenditures, Current”.

Amounts recorded in GL codes 721XX and 722XX should tie directly into the “Acquisitions” column of Statewide Financial Statement Form 19 - Changes in Capital Assets. For your information, amounts recorded in GL codes 723XX “Installment Purchase Acquisitions” and 724XX “Capital Lease Acquisitions” should also tie to the same column.

All disbursements from category 14XXXX “Grants and Aid to Local Governments/Nonprofit Organizations – Fixed Capital Outlay” are to be coded using GL 711XX. These are not fixed capital outlay disbursements; they are *grant and aid to local governments*.

All disbursements to or for local government projects that will be owned by or turned over to a local government and no matter what category is used are to be recorded using GL 711XX “Current Expenditures”.

Property items not acquired for the State of Florida are not to be recorded in the property system.

Statewide Financial Statements Guidance

For all revenues and expenditures in GL codes 622XX, 721XX, 722XX, 723XX, and 724XX that are recorded in governmental operating fund (SWGF 10, 20, 30, 40 or 72), the same balance must be offset for each of the GL codes (622XX, 721XX, 722XX, 723XX and 724XX) within the fixed assets account (SWFG 80) by the agency's closing date.

Additional info: Refer to the following documents on the SFRS website: Capital Asset Policy, Comptroller Memorandum No. 01, Capital Asset Overview, and Capital Asset Accounting Entries.

Long-Term Debt

For additional guidance, refer to the Long-term Debt Accounting Entries documents on the SFRS website.

Long-term liabilities should be recorded for legislative relief or claims bills requiring payments extending beyond one fiscal year. The long-term liability should be recognized for the fiscal year in which the bill becomes effective. The liability should be reduced each year as payments are made. These liabilities can be identified through analysis of annual appropriations and monitoring for all new legislation requiring payments extending beyond one fiscal year.

Analytical Procedures

Analytical procedures involve establishing expectations for financial information, determining reasons why financial information may differ from expectations, and taking appropriate actions to correct financial information. Analytical procedures may require input from personnel most familiar with operations of funds or the activities accounted for in them. The table below provides examples of common types of analytical procedures that may be used in financial accounting. These examples are not a comprehensive list of analytical procedures.

<u>Analytical Procedures</u>	<u>Sources of Information</u>
Comparison of current-year GL balances to those of one or more comparable periods.	SWFS Trial Balance (e.g., comparing current year to prior year)
Evaluation of the relationships of current-year balances to other current year balances for conformity with predictable patterns based on the agency's experience.	Financial relationships among accounts in the current period. For example, can the changes in the receivable GL's be traced to the activity in the revenue GL's?
Comparison of the current-year account balances results found in the agency's budgets and forecasts.	Agency's budgets and forecasts. For example, compare financial accounting data to budget data. Can the differences be traced to the accruals or refunds of expenditures?
Comparison of the current-year account balances and ratios with similar agency information.	Can the agency trace advances, due to's/from's, and transfers from another agency?

Other Guidance

See *Other Guidance* section below for further detail.

Fund Questionnaires

The fund questionnaire includes detailed instructions and may be found at the SFRS website. Contact the Statewide Financial Reporting Section for assistance.

Statewide Financial Statement Forms

Refer to the forms list and related instructions on the SFRS website. Contact the Statewide Financial Reporting Section for assistance.

Statewide Financial Statements Guidance

Component Units

No additional written guidance at this time. Contact the Statewide Financial Reporting Section for assistance.

Schedule of Expenditures and Federal Awards (SEFA)

Refer to the SEFA website for additional information:

http://www.fldfs.com/aadir/statewide_financial_reporting/financing.htm

SAS 99

The SAS 99 request is made in writing to your agency head from the Florida Department of Financial Services, Director, Division of Accounting and Auditing.

Budgeted Revenue Amounts

No additional written guidance at this time. Contact the Statewide Financial Reporting Section for assistance.

Component Units GASB Notification

The request for Component Unit notification is made in writing to your agency head from the Florida Department of Financial Services, Director, Division of Accounting and Auditing. Contact the Statewide Financial Reporting Section for assistance.

Revolving Funds

Revolving funds are local bank accounts maintained on an imprest (a loan or advance of money) basis that are used to make immediate disbursements on behalf of an agency that are later reimbursed. Revolving funds may be cash on hand, cash in the bank or a combination of both. Revolving funds must be approved in writing by the Chief Financial Officer. They can be established from either General Revenue or a trust fund.

Revolving Fund Established from General Revenue (GR):

Revolving funds established from GR are established from General Revenue Unallocated (the big general) not from the general revenue allocated to the Departments (little generals). At June 30, the following amounts are all that should remain in a revolving fund established from GR:

		<u>Debit</u>	<u>Credit</u>
111XX or 112XX	Cash (approved amount)	XXX	
451XX	Advances from Other Funds		XXX

Revolving Fund Established from a Trust Fund:

Ensure that amounts are not double reported in the source fund and in the revolving fund (i.e. cash).

Note: There should not be any amounts in GL 168XX, Due From Revolving Funds, or GL 358XX, Due To Revolving Fund.

Statewide Financial Statements Guidance

Interfund Loans Receivables and/ or Payables

Statewide Financial Statements Compliance Checklist Item #24 requires that all interfund loan balances at year-end be reported appropriately as interfund loans payable/receivable. These loans provide resources to other funds and are reciprocal in nature (i.e. include a repayment requirement). [Reference: GASB Codification of Governmental Accounting, and Financial Reporting Standards, 2005-06 Section 1800.102(a)(1).] For reporting purposes, these loan activities should not be classified as Transfers In/Out or other Expense, Expenditure/Revenue line item. Since FLAIR functionality records this activity as operating receipts and disbursements, entries must be posted to reverse the automated FLAIR postings in GL and record the interfund loan balances *either during the fiscal year¹ or at year-end²*.

Note: Interfund loans are treated similar to other interfund activity (i.e. due to/from's) and are assumed to be short-term in nature.

The following sample entries can be used as a guide for loans:

- between funds within an agency **OR**
- with other agencies (e.g. DFS's Trust Funds Control - 430000-20-2-732001)

ENTRIES FOR ACCRUALS POSTED DURING THE FISCAL YEAR¹

<u>DISTRIBUTING FUND:</u>	Loan Repaid Within Same Fiscal Year		Loan Partially Repaid Within the Fiscal Year		No Repayment During the Fiscal Year	
	<i>DR</i>	<i>CR</i>	<i>DR</i>	<i>CR</i>	<i>DR</i>	<i>CR</i>
GL 757XX or 759XX (Transfer Out)	100,000		100,000		100,000	
GL 122XX (Released Cash)		100,000		100,000		100,000
<i>To record loan funds distributed.</i>						
GL 162XX or 163XX (Due From)	100,000		100,000		100,000	
GL 757XX or 759XX (Transfer Out)		100,000		100,000		100,000
<i>To record receivable.</i>						
GL 121XX (Unreleased Cash)	100,000		50,000			
GL 657XX or 659XX (Transfer In)		100,000		50,000		
<i>To record repayment received.</i>						
GL 657XX or 659XX (Transfer In)	100,000		50,000			
GL 162XX or 163XX (Due From)		100,000		50,000		
<i>To clear initial receivable and revenue recorded.</i>						
<u>RECEIVING FUND:</u>						
GL 121XX (Unreleased Cash)	100,000		100,000		100,000	
GL 657XX or 659XX (Transfer In)		100,000		100,000		100,000
<i>To record receipt of loan funds from another fund or agency.</i>						
GL 657XX or 659XX (Transfer In)	100,000		100,000		100,000	
GL 352XX or 353XX (Due To)		100,000		100,000		100,000
<i>To record payable.</i>						
GL 757XX or 759XX (Transfer Out)	100,000		50,000			
GL 122XX (Released Cash)		100,000		50,000		
<i>To record repayment of loan funds .</i>						
GL 352XX or 353XX (Due To)	100,000		50,000			
GL 757XX or 759XX (Transfer Out)		100,000		50,000		
<i>To record loans payable.</i>						

Statewide Financial Statements Guidance

ENTRIES FOR ACCRUALS POSTED AT YEAR-END ²						
<u>DISTRIBUTING FUND:</u>	Loan Repaid Within Same Fiscal Year		Loan Partially Repaid Within the Fiscal Year		No Repayment During the Fiscal Year	
	<i>DR</i>	<i>CR</i>	<i>DR</i>	<i>CR</i>	<i>DR</i>	<i>CR</i>
GL 757XX or 759XX (Transfer Out)	100,000		100,000		100,000	
GL 122XX (Released Cash)		100,000		100,000		100,000
<i>To record loan funds distributed to another fund or agency.</i>						
GL 121XX (Unreleased Cash)	100,000		50,000			
GL 657XX or 659XX (Transfer In)		100,000		50,000		
<i>To record repayment received.</i>						
GL 162XX or 163XX (Due From)			50,000		100,000	
GL 657XX or 659XX (Transfer In)	100,000		50,000			
GL 757XX or 759XX (Transfer Out)		100,000		100,000		100,000
<i>Closing entry.</i>						
<u>RECEIVING FUND:</u>						
GL 121XX (Unreleased Cash)	100,000		100,000		100,000	
GL 657XX or 659XX (Transfer In)		100,000		100,000		100,000
<i>To record receipt of loan funds from another fund or agency.</i>						
GL 757XX or 759XX (Transfer Out)	100,000		50,000			
GL 122XX (Released Cash)		100,000		50,000		
<i>To record repayment made.</i>						
GL 657XX or 659XX (Transfer In)	100,000		100,000		100,000	
GL 757XX or 759XX (Transfer Out)		100,000		50,000		
GL 352XX or 353XX (Due To)				50,000		100,000
<i>Closing entry.</i>						

Public Deposit Requirements

A summary of key compliance requirements relating to Section 280, Florida Statutes are as follows:

1. Public deposits as defined by Section 280 are placed in a Qualified Public Depository (QPD).
2. The Public Depositor Annual Report (J1-1009) is filed.
3. Possession of the original, signed Public Depositor Identification and Acknowledgement (J1-1295) is required.

Review Section 280, Florida Statutes, for other requirements and additional information. The information contained here should not substitute for review of Section 280, Florida Statutes, and verification of compliance.

Statewide Financial Statements Guidance

Other Guidance

Late Payment Interest

When recording "late payment interest" it should not be recorded as an interest expenditure/expense.

Late payment interest paid from governmental funds should be charged to GL 711XX - Current Expenditures.

Late payment interest paid by proprietary funds should be recorded using the same GL as the late payment used, unless, it was for an item that was capitalized. If the interest was paid on an item that was capitalized, the interest should be recorded using GL 762XX Fiscal Charges Expense.

Residual Equity Transfers

Residual Equity Transfer is a nonrecurring or non-routine transfer of equity between funds.

For financial statement reporting purposes Residual Equity Transfers (RET) should be used in the following instances:

- When transferring a fund or funds to a different Department.
- When transferring funds between different statewide financial statement fund types.

Residual Equity Transfer should not be used when combining funds within the same department and the same statewide fund type. When a department is combining funds within the same statewide fund type they should record this as a transfer within department or division or contact the Statewide Financial Statement section for further advice.

Deferred Revenue- Other Grants

The policy that has been followed for Statewide Financial Statement Reporting is that Grant Funds are reported as revenue in the first fund to receive them, unless that fund is an Agency Fund (SWGf = 74). If these funds are to be disbursed from a fund other than where the revenue is recorded and the receiving fund is not an Agency Fund, the movement of these funds to the disbursing fund is to be recorded as a transfer either within the same Department or to another Department. Any deferred revenue that results from these transactions should be reported in the fund that recorded the revenue, not the fund where the disbursements are recorded. If the funds were transferred to another department, the department that received the transfer will have to notify the sending department of the amount that will need to be recorded as deferred revenue at June 30. The following is an example of the entries that will need to be made to properly record this transaction:

Funds Transferred within the Same Department

Department 1 receives an operating grant of \$100,000 in Fund 1.

GL	Cat	DR	CR
12XXX	Cash in State Treasury	100,000	
614XX	Operating Grants and Contributions		100,000

Statewide Financial Statements Guidance

Department 1 transfers the operating grant to fund 2 within the Department

GL	Cat	DR	CR
755XX	Fed Funds Transfer Out W/Dept	100,000	
12XXX	Cash in State Treasury		100,000

Department 1 records transfer in fund 2

12XXX	Cash in State Treasury	100,000	
655XX	Fed Funds Transfer in W/Dept		100,000

Fund 2 spends \$85,000

7XXXX	Expenditures/Expense	85,000	
12XXX	Cash in State Treasury		85,000

At 6/30/X1 Fund 2 has \$15,000 of the funds transferred in that have not been used.

Fund 2 records

655XX	Fed Funds Transfer in W/Dept	15,000	
352XX	Due to State Funds W/Dept		15,000

Fund 1 Records

162XX	Due From State Funds W/Dept	15,000	
755XX	Federal Funds Transfer Out W/Dept		15,000
(Reduces transfer out to \$85,000 which matches fund 2 transfer in)			
614XX	Operating Grants and Contributions	15,000	
389XX	Deferred Revenues		15,000
(Reduce revenue and record deferred revenue of \$15,000)			

Funds Transferred to Other Department

Department 1 receives an operating grant of \$100,000 in Fund 1.

12XXX	Cash in State Treasury	100,000	
614XX	Operating Grants and Contributions		100,000

Department 1 transfers grant to Department 2

756XX	Fed Funds Transfer Out to Other Dept	100,000	
12XXX	Cash in State Treasury		100,000

Department 2 records transfer in

12XXX	Cash in State Treasury	100,000	
656XX	Fed Funds Transfer in from Other Dept		100,000

Department 2 spends \$85,000

7XXXX	Expenditures/Expense	85,000	
12XXX	Cash in State Treasury		85,000

Statewide Financial Statements Guidance

At 6/ 30/X1 Department 2 has \$15,000 of the funds transferred that have not been used.

Department 2 records

GL	Cat	DR	CR
656XX	Fed Funds Transfer in from Other Dept	15,000	
353XX	Due to Other Departments		15,000

Department 1 Records

163XX	Due From Other Departments	15,000	
756XX	Fed Funds Transfer Out to Other Dept		15,000
(Reduces transfer out to \$85,000 which matches fund 2 transfer in)			
614XX	Operating Grants and Contributions	15,000	
389XX	Deferred Revenues		15,000
(Reduce revenue and record deferred revenue of 15,000)			

YEAR 2

Funds Transferred within the Same Department

Department 1 reverses 6/30/X1 entry in Fund 1

389XX	Deferred Revenues	15,000	
614XX	Operating Grants and Contributions		15,000
755XX	Federal Funds Transfer Out W/Dept	15,000	
162XX	Due From State Funds W/Dept		15,000

Department 1 reverses 6/30/X1 entry in fund 2

352XX	Due To State Funds W/Dept	15,000	
655XX	Fed Funds Transfer in W/Dept		15,000

Funds Transferred to Other Department

Department 1 reverses 6/30/X1

389XX	Deferred Revenues	15,000	
614XX	Operating Grants and Contributions		15,000
756XX	Fed Funds Transfer Out to Other Dept	15,000	
163XX	Due From Other Dept		15,000

Department 2 reverses 6/30/X1 entry

353XX	Due to Other Dept	15,000	
656XX	Fed Funds Transfer in from Other Dept		15,000

Statewide Financial Statements Guidance

Escheat Property- GASB 21

What is Escheat Property?

Escheat means the reversion of property to a governmental entity in the absence of legal claimants or heirs. This property can usually be reclaimed by the rightful owner or heir provided the claimant can establish his or her right to the property. For the purposes of GASB 21, the term escheat property also includes abandoned and unclaimed property.

Private Purpose Trust Fund - Where the revenue from *Escheat Property* should be recorded.
(430000-71-2-007001 Unclaimed Property Trust Fund)

Ultimate Fund - The fund where the escheat property (monies) or the monies received after the non-monetary escheat property is auctioned off/cashed, ultimately is sent from the Expendable Trust Fund.
(480000-20-2-543001 State School Trust Fund)

When to Record Revenue?

Revenue from escheat property in the Expendable Trust Fund is only recognized for cash items. Any items (i.e. autographed baseballs, jewelry, collectibles etc) or investment instruments received should not be recorded as revenue until they are converted to cash.

Cash sent by other state funds to the Expendable Trust Fund as escheat property should be recorded as a "Transfer between Funds".

Liability for Estimated Returns to Claimants

A liability representing the best estimate of the amount ultimately expected to be reclaimed and paid to claimants or their heirs should be established in the Expendable Trust Fund. To record this liability, revenue should be reduced and a liability "Deposits Payable" G/L 331XX should be increased. Subsequent payments to claimants are to be used to reduce the liability. *This liability may differ from an amount specified by law to be held for payment to claimants.*

Funds sent to the Ultimate Fund

Amounts sent from the *Private Purpose Trust Fund* to the *Ultimate Fund* should be recorded as a "Transfer Between Funds".

Year End Reporting

At year-end if the assets in the *Private Purpose Trust Fund* are less than the liabilities, the difference should be shown as "Advances To Other Funds" (G/L 251XX) in the *Private Purpose Trust Fund* and "Advances From Other Funds" (G/L 451XX) in the *Ultimate fund*.

Statewide Financial Statements Guidance

Year-end Entries

Record Liability for amounts expected to be returned to claimants

Private Purpose Trust

To implement GASB 21 an estimate of the amount the liability would have been reported at June 30, 1994 should be recorded as follows:			
		<u>DR</u>	<u>CR</u>
542XX	Prior Period Adj. to BFB	X,XXX,XXX	
331XX	Deposits Payable		X,XXX,XXX
Determine the amount that has been returned to claimants or heirs between July 1, 1994 and June 30, 1995. Record the Following Entry:			
331XX	Deposits Payable	XXX,XXX	
7XXXX	Expenditure		XXX,XXX

June 30, 1995 Implementation Entries

Determine the June 30, 1995 Total Estimated Liability to Claimants and Heirs. Calculate the difference between the Deposits Payable on the Balance Sheet (see June 30, 1995 Implementation Entries) and the Total Estimated Liability to Claimants and Heirs Make the Following entry for the difference:

		<u>DR</u>	<u>CR</u>
6XXXX	Revenue	XXX,XXX	
331XX	Deposits Payable		XXX,XXX

Ultimate fund

No entry is made in this fund for the amounts expected to be returned to claimants.

At year end if the liabilities of the Private Purpose Trust Fund exceed the assets, "Advances To Other Funds" G/L 251XX should be recorded in the Private Purpose Trust for the difference (Liabilities - Assets) and "Advances from Other Funds" G/L 451XX should be recorded in the Ultimate Fund for the same amount.

Entries Necessary to record the advance

Private Purpose Trust Fund

		<u>DR</u>	<u>CR</u>
(a) 251XX	Advances to Other Funds	XXX,XXX	
(b) 759XX	Transfers to Other Dept (Reduce the amount of the Transfers Out)		XXX,XXX

Ultimate Fund

		XXX,XXX	
(c) 659XX	Transfer in from Other Dept		
(a) 451XX	Advances from Other Funds (Reduce the amount of the Transfers In)		XXX,XXX

- (a) *Requires SWFS Form 8 be completed*
- (b) *Requires SWFS Form 10 be completed*
- (c) *Requires SWFS Form 9 be completed*

Statewide Financial Statements Guidance

Accounting for Risk Financing- GASB 10

GASB 10 is concerned with the following kinds of risk:

- a) Torts
- b) Theft of, damage to, or destruction of assets.
- c) Business Interruption.
- d) Errors or omissions.
- e) Job-related illnesses or injuries to employees.
- f) Acts of God.
- g) Other risks of loss.
- h) Losses from providing accident and health, dental, and other medical benefits to employees, retirees, their dependents and beneficiaries, based on covered events that have already occurred.

GASB 10 does not deal with post-employment benefits that the state expects to provide for current and future retirees.

The risk financing activities will be accounted for using an Internal Service Fund.

Estimated losses from a claim should be reported as an expense (GL 777XX) and a liability (GL 314XX) for any claim that meets the following conditions:

- a) Information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at June 30.
- b) The amount of loss can be reasonably estimated.
 1. If the amount of loss is a range, the amount that appears as the best estimate at the time is what should be reported. The areas in the range should be:
 - a. *Probable* - The future event(s) are likely to occur *or*
 - b. *Reasonably Possible* - The chance of the future event(s) occurring is more remote but less than likely *or*
 - c. *Remote* - The chance of the future event(s) occurring is slight.
 2. If no amount within a range appears to be the best estimate, then the minimum amount should be accrued.

If an incurred but not reported (IBNR) loss can be reasonably estimated and it is probable that a claim will be asserted, the expense and liability should be recognized. IBNR includes:

- a) Known loss events that are expected to later be presented as claims.
- b) Unknown loss events that are expected to become claims.
- c) Expected future development on claims already reported.

IBNR, is largely an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern. For example, after reviewing historical claims experience, one might find that only 40 percent of all claims are normally reported during the year of occurrence, an additional 50 percent the next year, and the remainder in the third year. This pattern could be used to estimate IBNR amounts and the timing of those amounts for financial statement purposes.

The claims liability including IBNR, should be based on the estimated ultimate cost of settling claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends and any other factors that would modify past experience.

If annuity contracts have been purchased in a claimants name to satisfy a claim liability and the likelihood is that additional payments on the claim are remote, these claims need not be included in the outstanding liability.

Statewide Financial Statements Guidance

Claims expense and the related liability should be reduced by amounts expected to be recovered through insurance.

June 30, 1995 GASB 10 Implementation Entry

In reclassifying the Claims Liability from General Long Term Debt Account Group, a Prior Period adjustment will be made in the Internal Service fund.

		DR	CR
532XX	Prior Period Adjustment to Beg R E	XXX,XXX,XXX	
314XX	Claims Payable		XXX,XXX,XXX

The Prior Period Adjustment should be made for the amount shown as claims payable at June 30, 1994 in General Long Term Debt Account Group.

Insurance funds - Casualty Type

Payments from other funds should be recorded as "Sales of Goods and Services-State" (GL 671XX).

The paying fund should charge "Current Expenditure" (GL 711XX) or "Contractual Services" (GL 772XX) as appropriate.

Payments for claims processed by a claims servicing company should be charged to "Insurance Claims Expense" (GL 777XX), the fee paid to a servicing company should be charged to "Contractual Services" (GL 772XX).

Health Insurance

The employee portion of the health insurance premium should be recorded in the Health Insurance Fund as "Sale of Goods and Services - Non State" (GL 672XX). Only the State's portion should be classified "Sale of Goods and Services - State" (GL 671XX).

Payments made to HMO's etc. should be charged to "Benefit Payments" (GL 779XX). Payments for claims processed by a claims servicing company should be charged to "Insurance Claims Expense" (GL 777XX). The fee paid to a servicing company should be charged to "Contractual Services" (GL 772XX).

Proprietary Fund Debt Refunding- GASB 23

GASB 23 requires proprietary funds to amortize the difference between the reacquisition price and the net carrying amount of the debt refunded. This pronouncement is applicable to both current refundings and advance refundings.

- Refunding of Debt - When new debt is issued and the proceeds of that debt are used to repay previously issued debt.
- Current Refunding - Proceeds of the new debt are used to repay the old debt.
- Advance Refunding - Proceeds of the new debt are placed in escrow and used to pay the principal and interest on the old debt as it becomes due in the future.

The difference between *reacquisition price* and the *net carrying amount* of the old debt should 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.

- Reacquisition Price - The amount required to repay previously issued debt in a

Statewide Financial Statements Guidance

- Current Refunding - This would include principal of the old debt and any call premium.
- Advance Refunding - The amount placed in escrow that together with interest earnings is necessary to pay interest and principal and call premium.
- Net Carrying Amount - The amount due at maturity adjusted for any unamortized premium or discount and issuance costs related to the old debt.

Accounting

Separate schedules for each refunding must be maintained for the shorter of the life of the old debt or the new debt. Amortization shall be by the straight line method.

The unamortized amount will be recorded in GL 465XX "Amount Deferred on Refunding".

The yearly amortization shall be charged to GL 786XX "Amortization - Non-Operating".

This will not be retroactively applied for State of Florida bonds, this only relates to refundings occurring after June 30, 1994.

Accrual of Taxes Receivable- GASB 22

GASB 22 results in a change in the way we account for taxes. In the past taxes were generally recorded as revenue when they were actually received (cash basis). Effective June 30, 1995 the new standard for reporting requires recording taxes receivable and tax revenue at June 30, on an accrual basis. Taxes will now be recorded in the period they become both measurable and available.

Accruing Taxes Receivable

Taxes that were collected on behalf of the state or were payable to the state on or before June 30, and were received by July 31 are to be recorded as Taxes Receivable (G/L 152XX) and Taxes (G/L 611XX) net of estimated refunds.

Derivatives Disclosures

GASB Technical Bulletin 94-1: Disclosures about Derivatives and Similar Debt and Investment Transactions.

If derivatives have been used, held or written during the fiscal year the nature of the transactions and the reasons for entering into them must be explained in the notes to the financial statements. This explanation should include the States risk relating to:

- Credit Risk - Exposure to the default of another party to the transaction (the counterparty) (Whether there is/was risk that the counterparty was going to be able to fulfill its obligation)
- Market Risk - Exposure to changes in the market, such as change in interest rates or a change in the price or principal value of a security.
- Legal Risk - Exposure to a transaction's being found to be prohibited by law, regulation or contract.

Only to the extent that these risks are above and beyond those risks that are apparent in the financial statements or are otherwise disclosed in the notes to the financial statements.

The disclosures above are also required if derivatives have been acquired indirectly such as investing in a pool or mutual funds that may invest in derivatives. If this information is not available, that fact should be disclosed. (This information will be furnished by the Treasurer's Office and the State Board of Administration for their respective investing activities.)

Statewide Financial Statements Guidance

Agencies having investment activity other than the Treasury Pool and SBA need to request the person responsible for investing furnish the information required by GASB Technical Bulletin No. 94-1. Copies of this Bulletin may be requested from the Statewide Financial Section of the Comptrollers Office at 410-9951.

Recording Receivables in General Revenue Funds

Any General Revenue receivable or due from other department that is collected by August 31, must be recorded in a departments "little general" even though the receivable was not certified forward. Unless the receivable was certified forward as a current year expenditure refund, a "Due to General Revenue" G/L 356XX will be recorded and a form 4 completed.

If a trust fund within the same department owes General Revenue a "Due to General Revenue" G/L 356XX should be recorded in the trust fund and a form 4 completed. This is not a due to/due from within the same department.

Proprietary Fund Type Revenue and Expense

The following Statewide GASB Funds (SWGf) are Proprietary Fund Types:

50	Enterprise Funds
55	Component Unit Proprietary Funds
60	Internal Service Funds

Note: GASB Funds 71, 73, 75 and 76 also use proprietary general ledger codes, although the financial statements for these GASB fund types do not distinguish between operating and non-operating revenues and expenses.

In proprietary fund types operating activities generally result from providing goods or services, and include all transactions involved in delivering those goods or services. In the State of Florida the goods or services include such things as:

- Licensing
- Permitting
- Testing
- Regulating
- Loan programs
- The lottery
- The turnpike and other toll facilities
- Unemployment Compensation
- Training
- Sale of surplus property
- Motor pool
- Facilities rental
- Telephone/Suncom
- Aircraft

Licensing, regulating and permitting are considered providing a service. By licensing, permitting or regulating businesses or individuals, you are providing them a service by allowing them to conduct their business in Florida.]

In general any revenues or expenses directly involved in providing these goods or services should be considered operating revenues/expenses.

Statewide Financial Statements Guidance

Late payment interest is not interest expense. It should be charged to the same GL as the payment that caused the late interest to be assessed was charged.

The following items are generally not considered operating revenues or expenses:

- Interest payments on bonds, capital leases or installment purchases
- Amortization of bond premium or discount
- Interest earnings
- Transfers
- Grants to others
- Proceeds from the sale of fixed assets
- Operating or capital grants or donations
- Loans made to others (Non-loan program)
- Advances

Refer to the GL list for general ledger codes and related information to be used for proprietary funds.

Capital Grants and Contributions- Governmental and Proprietary

Effective July 1, 2001, all capital grant revenue must be recorded separately in FLAIR. This is the result of the requirement of paragraph 50 in the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

Capital grants and contributions include revenues or capital assets received from other governments, organizations, or individuals that are restricted for State capital purposes (i.e. to purchase, construct, or renovate State capital assets associated with a specific program). Capital assets are defined as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital grants and contributions also include donated materials and services used in the construction of State capital assets.

Capital grants and contributions should be reported in the following general ledger codes:

<u>Governmental Funds</u>	<u>Proprietary Funds</u>
GL Code 621XX -Capital Grants and Contributions	GL Code 687XX – Capital Grants and Contributions

Grants and contributions that may be used for *either* operating expenses *or* for capital expenditures of a program are not considered capital grants and contributions, and should continue to be reported in the following general ledger codes:

<u>Governmental Funds</u>	<u>Proprietary Funds</u>
GL Code 614XX – Non-capital (operating) Grants and Contributions	GL Code 683XX – Non-capital (operating) Grants and Contributions

Moneys received by the State and passed through to other entities for capital purposes should be reported by the State as operating grants and contributions. [See question No. 70 in GASB’s second Implementation Guide.]

Statewide Financial Statements Guidance

Revenue and Expense/Expenditure Recognition

We have established some new GL's and re-titled some old GL's in order to properly account for revenues that are deferred or unearned and disbursements that should not be recorded as an expense or expenditure at the time they are made.

<u>GL</u>	<u>Title</u>
193XX	Deferred Charges – Current
252XX	Deferred Charges – Non Current
255XX	Advances to Other Governments/Entities
388XX	Unearned Revenues – Current
389XX	Deferred Revenues
488XX	Unearned Revenues – Non Current
489XX	Deferred Revenue

Receivables and revenue recognition

The following is a guide on **when a receivable should be recorded**:

- Exchange and exchange like transactions – A receivable should be recognized as soon as the underlying exchange occurs.
- Nonexchange transactions
 - Derived tax revenues – A receivable should be recorded when the underlying transaction takes place. (i.e. sales tax – when the sale takes place)
 - Imposed nonexchange revenues – As soon as an enforceable legal claim is obtained. (i.e. Fines and forfeits)
 - Government mandated and voluntary exchange transactions – As soon as all eligibility requirements have been met.

(Note: in some instances you may not know you have a receivable/revenue for nonexchange transactions until you actually receive the cash. In other cases there may be historical records that could be used to prepare an estimate.)

The modified accrual method of accounting used by governmental funds (*SWGf 10, 20, 30, 40 or 72*) relates to when revenue is recognized, not when receivables should be recorded. **Deferred revenue** exists when you have a receivable and are unable to recognize/accrue revenue in a governmental fund because of time restraints in the collection process. The modified accrual method used in governmental funds requires that amounts be earned **and** available to finance current expenditures. The availability requirement is met only if collection occurs within 60 days of fiscal year-end. If this criterion is not met, the amount is deferred in the governmental funds (use Deferred Revenue GL's 389XX (current) GL's 489XX (noncurrent)). However, since the entity-wide perspective is based on full accrual, the deferred amounts would be recognized as revenue in the government-wide statements.

In *proprietary type funds* (*SWGf 50, 60, 71, 73 or 76*) any receivable expected to be collected within the next fiscal year should be recognized as revenue. If it is not expected to be collected within 1 year it should be considered deferred.

Generally there would not be deferred revenue in a *SWGf 74* since revenue is not recognized and usually everything in a *SWGf 74* is short term.

Advances received and revenue recognition – (Unearned Revenue)

If an advance is received (cash collected but the earnings process is not complete) from outside our reporting entity, it should be recorded as "unearned revenue" (GL's 388XX (current) or 488XX (noncurrent) as appropriate). If the advance is returned to the provider, a reduction of the unearned revenue, *not* an expense/expenditure is appropriate. Unearned revenue is reported in governmental, proprietary, and fiduciary statements, as well as in government-wide statements.

Statewide Financial Statements Guidance

Expenditure/Expense recognition vs. Advances to outside entities

A deferred charge is when an agency has disbursed funds that the recipients of the cash have not earned at the end of the fiscal year. Essentially an advance has been made to someone outside the reporting entity. For example, moneys have been provided to a local government to build a building. Once the building is completed they have to account for the money provided and return any that was not used or not used properly. These advances should not be recorded as an expenditure/expense. They should appropriately be recorded as an "advance to" GL 255XX or "deferred charges" (GL's 193XX (current) or 252XX (noncurrent)). When your agency receives documentation supporting use of the funds by the outside party, then an expenditure/expense should be recognized.

If your agency provides a grant to an outside party that voluntarily makes draw downs as it needs the funds, the amount they have not drawn down at year end should be recorded as a liability and an expense/expenditure.

Expenditure Refunds

If an outside party refunds a payment or portion of a payment and the repayment is received in the same fiscal year as the original payment was made, a reduction of an expense/expenditure (credit an expense/expenditure GL – 7XXXX) is appropriate, *not a refund*. If the repayment is received in a subsequent fiscal year relative to original payment, the repayment should be recorded as revenue (credit a revenue GL, e.g. 618XX for governmental fund or 679XX/689XX for proprietary).

State Treasury Investment Pool Interest and Administrative Fee

Effective July 1, 2002, any interest earned on deposits in the State Treasury Investment Pool should be reported separately from the administrative fee charged. The interest earned should be recorded as Interest and Dividends (GL 615XX for governmental funds) or Interest (GL 686XX for proprietary type funds). The administrative fee charged should be recorded as Expenditures Current (GL 711XX governmental funds) or Amortization and Fiscal Charges (GL 785XX proprietary type funds). These GLs can be used in conjunction with 310403 - ASSESSMENT ON INVESTMENTS.

Example: If you earned \$1,000 in interest on deposits in the State Treasury Investment Pool, and the administrative fee charged was \$20, the following entry should be recorded:

	<u>Debit</u>	<u>Credit</u>
<i>Governmental Funds (10, 20, 30, 40 or 72)</i>		
Pooled Investments with State Treasury (141XX)	\$980	
Interest and Dividends (615XX)		\$1,000
Expenditures Current (711XX)	\$ 20	
<i>Proprietary Type Funds (50, 60, 71, 73 or 76)</i>		
Pooled Investments with State Treasury (141XX)	\$980	
Interest (686XX)		\$1,000
Amortization and Fiscal Charges (785XX)	\$ 20	

If the \$1,000 in interest has been earned but not received at June 30, the following entry should be recorded:

	<u>Debit</u>	<u>Credit</u>
<i>Governmental Funds (10, 20, 30, 40 or 72)</i>		
Interest and Dividends Receivable (153XX)	\$1,000	
Interest and Dividends (615XX)		\$1,000
Due to Other Funds (353XX) *		\$ 20
Expenditures Current (711XX)	\$ 20	

Statewide Financial Statements Guidance

Proprietary Type Funds (50, 60, 71, 73 or 76)

Interest and Dividends Receivable (153XX)	\$1,000	
Interest (615XX/686XX)		\$1,000
Due to Other Funds (353XX) *		\$ 20
Amortization and Fiscal Charges (785XX)	\$ 20	

Agency Funds (74)

Interest and Dividends Receivable (153XX)	\$1,000	
Due to Other Funds (353XX) *		\$ 20
Accounts Payable		\$ 980

* Use fund **43 20 2 725001 43100200 00 000100 00** (Administrative and Investment Trust Fund)

Impairment of Capital Assets and Insurance Recoveries

For the fiscal year ending June 30, 2006, the State of Florida will implement Statement No. 42 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Statement No. 42 establishes new accounting and reporting requirements for capital asset impairments and related insurance recoveries. The intent of these new requirements is to make capital asset impairments and insurance recoveries more identifiable and to improve comparability of financial statements between governments.

The Department of Financial Services established this policy to provide guidance for state agencies to achieve consistency regarding the accounting of capital asset impairments and related insurance recoveries for the preparation of the statewide financial statements. This policy does not supersede or supplant guidance or direction provided by any other organization or governmental entity for other operational purposes. For example, this policy does not replace the Florida Accounting Information Resource (FLAIR) Property Manual.

When a capital asset has been impaired, the carrying value of the capital asset is written down by the amount of the impairment loss. An impairment is a *significant* and *unexpected* decline in the service utility of a capital asset. The service utility of a capital asset is the *usable capacity* that at acquisition was expected to be used to provide service. If an impairment is determined to be temporary (not permanent), the carrying value of the capital asset is not written down.

Agency management is responsible for ensuring proper accounting and reporting of capital asset impairments. The events or changes in circumstances that lead to impairments are not considered normal and ordinary. That is, at the time the capital asset was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the capital asset. Furthermore, the events or changes in circumstances affecting a capital asset that may indicate impairments are prominent; that is, conspicuous or known to the agency. Agencies are not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of their normal operations. The events or changes in circumstances that may indicate impairment generally are expected to have prompted discussion by agency management or the media.

To determine whether a capital asset has been impaired, a two-step process is used to first identify potential impairments and then to test for impairment. Capital assets that have potential for meeting the definition of impairment are identified through events or changes in circumstances that are prominent and that denote the presence of *indicators* of impairment. After such capital assets have been identified, a test of impairment must be performed to determine whether the circumstance or change in condition results in a *significant* and *unexpected* decline in the service utility (useful life expected at acquisition) of a capital asset.

Statewide Financial Statements Guidance

Indicators of Potential Impairment

When events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined, impairment may be indicated. Common indicators of potential impairments include:

- Evidence of physical damage, such as for a building damaged by fire or flood, when the level of damage is such that restoration efforts are needed to restore service utility.
- Enactment or approval of laws or regulations or changes in environmental factors, such as new water quality standards that a water treatment plant does not meet (and cannot be modified to meet).
- Technological development or evidence of obsolescence, such as that related to a major piece of research or diagnostic equipment that is rarely used because newer equipment provides better service.
- Changes in the manner or expected duration of use of a capital asset, such as closure of a school prior to the end of its useful life.
- Construction stoppage, such as stoppage of construction of a building due to lack of funding.

A change in *demand* for the services of a capital asset is not considered a separate indicator of impairment. However, changes in demand may be caused by or associated with indicators such as those listed above, and capital assets in these circumstances should be tested for impairment. For example, decreased demand for the processing services of a mainframe computer because former users of the mainframe have transitioned to PC- and server-based systems should be considered a change in demand associated with an *indicator* of impairment (evidence of obsolescence) and the mainframe should be tested for impairment. However, a decrease in demand resulting from the completion of a special project requiring large amounts of processing time on a mainframe computer that runs other applications should not be considered a change in demand associated with an *indicator* of impairment, and a test for impairment is not required.

Impairment Test

A capital asset identified by the *Indicators of Potential Impairment* should be tested for impairment by determining whether both of the following two factors are present:

- The magnitude of the decline in service utility is *significant*; and
- The decline in service utility is *unexpected* (i.e., event or change is not a part of the normal life cycle of the asset, including outside the range of normal effects of age and use).

Note: If an event or circumstance indicates that a capital asset may be impaired, but the test of impairment determines that impairment has not occurred, the estimates used in depreciation calculations (remaining useful life and salvage value) should be reevaluated and changed, if necessary. Changes to estimated useful lives and salvage values are accounted for on a prospective basis in future depreciation expense (not recorded as a prior period adjustment).

Measurement of Impairment

The amount of impairment is the portion of the historical cost that should be written off. There are four different methods of calculating an impairment loss. The chart below summarizes the method of measurement to be used for each of the common indicators listed in the *Indicators of Potential Impairment* section.

Statewide Financial Statements Guidance

<u>Reason (Indicator Present)</u>	<u>Measurement Method to Use</u>
Evidence of physical damage	Restoration cost approach
Changes in laws or regulations and changes in environmental factors	Service units approach
Technological changes or evidence of obsolescence	Service units approach
Change in the manner or expected duration of use	Service units approach <u>or</u> deflated depreciated replacement cost approach
Construction stoppage	Lower of carrying value or fair value

- Restoration Cost Approach
Under this approach, the amount of impairment is derived from the estimated costs to restore the utility of the capital asset. Restoration cost is the cost necessary to return the capital asset to its original condition and does not include any amount attributable to improvements or additions. Estimate the restoration costs in current year dollars, and then use one of the following two options to convert the estimated restoration costs to historical costs:
 - Using current year dollars, identify the replacement cost of the entire asset. Establish a ratio by dividing the restoration cost by the current replacement cost. This will result in a percentage of the damaged portion of the capital asset. Multiply the percent of damaged portion by the carrying value (historical cost less accumulated depreciation) to calculate the impairment loss.
 - Using year of acquisition dollars, determine the appropriate cost index to deflate and convert the restoration costs to historical costs. Establish a ratio by dividing the deflated restoration cost by the historical cost. Multiply the resulting percentage by the carrying value (historical cost less accumulated depreciation) to calculate the impairment loss.

- Service Units Approach.
This approach isolates the historical cost of the service utility of the capital asset that cannot be used due to the impairment event or change in circumstances. The amount of impairment is determined by evaluating the service provided by the capital asset (either maximum estimated service units or total estimated service units throughout the life of the capital asset) *before* and *after* the event or change in circumstance. Use one of the following three options to compare the service provided by the capital asset before the event or change in circumstance to the service provided after the event or change in circumstance using the service units approach.
 - Calculate the amount of impairment loss by taking a ratio of *lost* units over the *total* units originally expected over the life of the asset and multiplying that ratio by the historical cost of the capital asset.
 - Calculate the amount of impairment loss by taking a ratio of *lost* units per period over the *total* units per period originally expected over the life of the asset and multiplying that ratio by the carrying value of the capital asset.
 - Calculate the amount of impairment loss by subtracting the value of units remaining after the impairment from the carrying value of the capital asset. The value of remaining units is calculated by multiplying the unit cost by the number of remaining units. The unit cost is calculated by dividing the historical cost by the *total* units originally expected over the life of the asset.

Statewide Financial Statements Guidance

- Deflated Depreciated Replacement Cost Approach.
This approach replicates the historical cost of the service produced. A current cost for a capital asset to replace the current level of service is estimated. This estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars. This method uses the following steps:
 - a) Using current value, estimate a hypothetical replacement cost for an equivalent asset specifically suited to the new manner or expected duration of use.
 - b) Depreciate the cost of the replacement asset by multiplying the depreciated ratio of the actual asset (carrying value over historical cost) by the estimated replacement cost.
 - c) Using an appropriate cost index, deflate the cost of the replacement asset to restate it on the basis of acquisition year dollars.
 - d) Subtract the deflated depreciated replacement value from the carrying value of the impaired asset to calculate the impairment loss.
- Lower of Carrying Value or Fair Value.
Impaired capital assets that will no longer be used by an agency and construction stoppage must be reported at the lower of carrying value or fair value. Thus, if the carrying value of the asset is higher than the fair value, the carrying value must be written down to fair value.

Determine Treatment as Extraordinary Item or Operating Expense

Once an asset has been determined to be impaired, the next step is to decide whether to record the impairment as an extraordinary item or operating expense. Extraordinary items are transactions or other events that are *both* unusual in nature and infrequent in occurrence. By definition, once an asset has met the impairment criteria, it has already been determined to be unusual in nature, or unexpected. Frequency then becomes the determining factor as to whether impairment is considered extraordinary. Thus, impaired capital assets are considered to be extraordinary items if they occur on an *infrequent* basis. Extraordinary impaired capital assets are *significant, unexpected* declines in service utility of a capital asset that occurs on an *infrequent* basis. Frequently occurring impairments are considered operating expense.

Insurance Recoveries

Insurance recoveries should be recognized only when realized or realizable. The following guidance is offered by GASB 42 to determine when an insurance recovery would be realizable:

- If an insurer has admitted or acknowledged coverage, an insurance recovery would be realizable;
- If the insurer has denied coverage, the insurance recovery generally would not be realizable.

Journal Entry Examples

GL 711XX Expenditures*

GL 272XX Buildings & Building Improvements

To record impairment loss in a governmental fund (for GW Statements), loss is significant and results in unexpected decline in the service utility of a building, but loss is NOT both unusual in nature and infrequent in occurrence. Record in SWGF 80.

GL 719XX Extraordinary Items*

GL 272XX Buildings & Building Improvements

To record impairment loss in a governmental fund (for GW Statements), loss is significant and results in unexpected decline in the service utility of a building, and loss is both unusual in nature and infrequent in occurrence. Record in SWGF 80.

Statewide Financial Statements Guidance

GL 765XX Capital Asset Impairment - Operating Expense (NEW)*

GL 272XX Buildings & Building Improvements

To record impairment loss in a proprietary fund, loss is significant and results in unexpected decline in the service utility of a building, and loss is NOT both unusual in nature and infrequent in occurrence. Record in SWGF 50 or 60.

GL 788XX Extraordinary Items*

GL 272XX Buildings & Building Improvements

To record impairment loss in a proprietary fund, loss is significant and results in unexpected decline in the service utility of a building, and loss is both unusual in nature and infrequent in occurrence. Record in SWGF 50 or 60.

GL 12XXX Cash

GL 692XX Insurance Recoveries - Other Financing Source (NEW)

To record insurance recoveries in a governmental fund in years subsequent to year of impairment loss NOT considered to be extraordinary. Record in SWGF 10 or 20.

GL 692XX Insurance Recoveries – Other Financing Source (NEW)

GL 616XX Fines, Forfeits, Judgments and Settlements

To record an offset for insurance recovery entry recorded in the governmental fund for government-wide financial statement purposes when impairment loss is not considered to be extraordinary. Record in SWGF 90.

GL 12XXX Cash

GL 719XX Extraordinary Items

To record insurance recoveries in a governmental fund in years subsequent to year of impairment loss considered to be extraordinary. Record in SWGF 10 or 20.

GL 12XXX Cash

GL 681XX Insurance Recoveries - Nonoperating Revenue (NEW)

To record insurance recoveries in a proprietary fund in years subsequent to year of impairment loss NOT considered to be extraordinary. Record in SWGF 50 or 60.

GL 12XXX Cash

GL 788XX Extraordinary Items

To record insurance recoveries in proprietary fund in years subsequent to year of impairment loss considered to be extraordinary. Record in SWGF 50 or 60.

Notes:

- To record impairment loss for capital assets other than buildings and building improvements, use the appropriate general ledger codes for the capital assets.
- Agency should have a mechanism to track changes to historical cost and useful lives so that proper depreciation and accumulated depreciation will be reflected when changes are necessary due to impairment loss.