Chapter 6

Governmental Accounting and Financial Reporting

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GENERAL DESCRIPTION

This chapter details the financial *reporting* structure to be used by all community college districts in their independent, annual audits. The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, has recommended that all community college districts use the reporting standards as outlined in Governmental Accounting Standards Board (GASB) Statements No. 34, *"Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments"* and No. 35, *"Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities"*. Under these statements, the Chancellor's Office through the Fiscal Standards Committee, has adopted the Business Type Activity (BTA) reporting model.

The primary objective of GASB Statements No. 34 and 35, is to enhance the understandability and usefulness of external financial information issued by public colleges and universities through the establishment of new accounting and financial reporting standards. The overall financial reporting emphasis shifts away from the funds of a district to the district as a whole. The Statement recognizes the general purpose of external financial reports is to the citizens, legislative and oversight bodies, and investors and creditors; the groups recognized by GASB Concepts Statement No. 1, Objectives of Financial Reporting, as the primary intended users of governmental financial reports.

The community college system adopted the use of GASB Statement No. 35 (BTA) which became effective in three phases, based on total annual revenues:

$100 million or more – Phase 1 – became effective in 2001-2002
$10 million or more – Phase 2 – became effective in 2002-2003
Less than $10 million – Phase 3 – became effective in 2003-2004

Generally, GASB Statement No. 35 amended GASB Statement No. 34 to permit public colleges and universities, in separately issued financial statements, to use the guidance for special-purpose governments engaged only in business-type activities, engaged only in governmental activities, or engaged in both governmental and business-type activities in their separately issued reports. Under this guidance, a public institution is required to include Management's Discussion and Analysis (MD&A); basic financial statements; notes to the financial statements; and required supplementary information other than MD&A. This reporting model does not require that fund financial statements be included in the annual audit report; however, a community college district may choose to include fund financial statements as other supplementary information.

In accordance with the reporting model outlined above, the financial data presented in the annual audit report must provide an entity-wide perspective displaying a consolidated total of all district funds. In addition, the financial data reported must be presented under the full accrual basis of accounting which requires that revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Balance Sheet reflects the long term assets, such as capital assets, and long term liabilities such as debt with the residual balance classified as Net Assets.

Following is a brief description of the each of the required components of the reporting model prescribed under GASB Statement No. 35, and in accordance with the recommended BTA model. Please refer to the Contracted District Audit Manual (CDAM) for a sample of an audit report and further guidance.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The MD&A precedes the basic financial statements and should introduce the financial statements and activities of the district. Although the MD&A is required supplementary information, it must be presented *before* the basic financial statements. The MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The MD&A should include a discussion of both the positive and negative trends for the district and is to be complete and factual. The MD&A should include:

- Comparisons of the current year to each prior year included in the basic financial statements. If two-year comparative financial statements are presented, the MD&A analysis will cover a three year period of time.
- Analysis of the district's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities.
- Analysis of significant changes that occur in funds.
- Description of capital assets and long-term debt activity during the year.
- Description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.
- Future known economic factors that may impact the district's operations.
- A method for contacting the district to receive additional information if necessary.

BASIC FINANCIAL STATEMENTS

Statement of Net Assets

All governmental and proprietary funds as well as the Student Financial Aid fund of the district will be consolidated in a single column Statement of Net Assets. Fiduciary funds are reported separately as the assets and related liabilities are held in trust for other groups or organizations.

Assets and liabilities are presented in order of their relative liquidity with Cash and assets expected to be used in operation within the year classified as current assets. Assets not expected to be sold or used in current operations are classified as noncurrent assets. The primary category of noncurrent assets are the capital assets of the district: land, construction in process, improvements, buildings and equipment – net of accumulated depreciation.

Liabilities of the district are similarly classified as current or long term depending upon the anticipated liquidation. Those liabilities to be liquidated through the use of current assets – including cash- are current liabilities. Those amounts that will mature or come due in future years are classified as long term liabilities. The amount of a long term liability that will be due within one year is recorded within the current liabilities classification.

Amounts due to/from the various funds of the district are consolidated and eliminated in the conversion process.

Net Assets is the remaining equity of the district on an entity-wide basis. Net assets are classified in three categories:

Invested in capital assets, net of related debt
Restricted nets assets – expendable and nonexpendable
Unrestricted net assets

Statement of Revenues, Expenses and Changes in Net Assets

District revenues are consolidated and classified as either operating or nonoperating, depending upon the actual source of the revenue on the ***Statement of Revenues, Expenses and Changes in Net Assets***.

Under the accrual basis of accounting, revenue is recorded when earned regardless of the corresponding cash flow. Whether a transaction results from restricted or unrestricted revenue is not a factor in deciding when the revenue is recorded. The GASB has defined revenue transactions as either an exchange transaction or a nonexchange transaction as detailed in GASB Statement No. 33; *Accounting and Financial Reporting for Nonexchange Transactions*:

> **Exchange Transactions** – there is an identifiable exchange of value between the district and another party. Examples of exchange transactions include Student Tuition and Fees as students will receive credit for courses paid for, and Bookstore and Cafeteria Sales. Student tuition and fees are first to be reported gross of any scholarships or allowances with the corresponding discount shown on the face of the financial statements. Exchange transactions are, by their nature, operating revenues
>
> **Nonexchange transactions –** revenues received by the district where there is no clear value between the district and another party. Examples of nonexchange transactions include State Apportionment, Property Tax revenues, Federal and State grants and Interest revenue. Nonexchange transactions are nonoperating revenues.

Expenses are classified as to operating and nonoperating. Those expenses which are required in the normal course of business, and serve the stated purpose of the district, are reported as operating expenses. This will include salaries and benefits, supplies and operating expenses, and depreciation expense. Additionally, as student financial aid is, in many cases, necessary for the students to attend the college, this is also classified as an operating expense.

Nonoperating expenses are those expenses not required in the normal course of business: e.g. interest expense, or a loss on disposal of an asset.

<u>Statement of Cash Flows</u>

GASB Statement No. 35 requires the preparation of a Statement of Cash Flows based on the provisions of GASB Statement No. 9: "*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Accounting".* (BTA model) The Direct method of presenting the cash flows from operations must be used and will include a reconciliation of operating cash flows to operating income.

The primary purpose of a Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. A Statement of Cash Flows should explain the change in cash and cash equivalents regardless of whether there are restrictions on their use.

For purposes of Statement No. 9, **cash** includes currency, demand deposits with banks or other financial institutions, and deposits in other kinds of accounts or cash management pools that have the characteristic of demand deposit accounts. **Cash equivalents** are short-term, highly liquid investments, generally with maturities of three months or less. Examples of cash equivalents are treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools.

Cash receipts and payments are reported at **gross**. For example, outlays for acquisitions of capital assets should be reported separately from the proceeds from sales of capital assets, and proceeds of borrowing should be reported separately from repayments.

The Statement of Cash Flows has four categories: (1) *Cash Flows from Operating Activities*, (2) *Cash Flows from Noncapital Financing Activities*, (3) *Cash Flows from Capital and Related Financing Activities*, and (4) *Cash Flows from Investing Activities*. In addition, districts must report information about all investing, capital, and financing activities that affect assets and liabilities but do not result in cash receipts or cash payments in the period. This information will be presented in a separate schedule, beneath the Statement of Cash Flows, with the title, *Noncash Transactions.*

Finally, a Reconciliation of Net Operating Income (Loss) to the Net Cash Flows from Operating Activities must be presented.

<u>Notes to the Financial Statements</u>

The Notes to the Financial Statements provide expanded definitions of district accounting policies, as well as clarity and detail for specific components of the financial statements. The notes to the financial statements are considered to be an integral part of the statements for the district and should always be read in conjunctions with the statements themselves. The notes provide disclosure of material items which, if not disclosed, could cause the financial statements to be misleading. The required notes are prescribed in GASB Statement No. 38, *"Certain Financial Statement Note Disclosures"* as well as the sample notes included within the Chancellor's Office Contracted District Audit Manual (CDAM). Each district has responsibility to read the notes to the financial statements and determine whether further explanation and/or descriptions about significant events should be included. It is likely that each district within the community college system will have different notes depending upon their particular circumstances. The most common notes are included within the CDAM and are to be reviewed with the district auditors for completeness.

<u>Required Supplementary Information</u>

Other Post Employment Benefits (OPEB)

Accounting principles have long held that the cost of post employment benefits should be accrued over covered employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards No. 43 and No. 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees. An entity is required to recognize the total compensation for employee services, including OPEB costs.

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the funds accumulated at retirement are, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. Districts are required to have an actuarial report completed every 2 years (or 3 years if there are fewer than 200 plan members) to determine these costs.

Conceptually, there are two components of actuarial cost - a “normal cost” and an amortized amount of the “unfunded actuarial accrued liability.” The normal cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. An actuary determines what amount needs to be expensed each year from hire until retirement to fully accrue the expected cost of retiree health benefits. Under GASB Statements No. 43 and 45, the normal cost can be expressed either as a level dollar amount or as a level percentage of payrolls and is expensed in the 3400 object codes for health and welfare benefits.

If an employer had expensed the normal cost every year for all past and current employees and retirees, the funds would have accumulated to a sizeable amount. The amount that should be accumulated is called the actuarial accrued liability (AAL). The excess of the AAL over funds earmarked for retiree health benefits is called the unfunded actuarial accrued liability (UAAL). Under GASB Statements No. 43 and 45, in order for assets to count toward offsetting the AAL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The district’s annual OPEB cost is calculated based on the ARC of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any UAAL over a period not to exceed thirty years. If the District is fully funding its ARC in an irrevocable trust, there are no adjusting entries required for financial reporting purposes. If the district is not fully funding its ARC, the unfunded amount is recorded as a benefit expense with the offset to an OPEB liability.

A schedule of funding progress is included in the Required Supplementary Information section of the financial statements. The schedule is prepared to show information from the three most recent actuarial valuations and is intended to show trends about the funding progress of the District’s actuarially determined liability for postemployment benefits other than pensions. For additional information regarding accounting for OPEB, refer to accounting advisory GASB Statement No. 45 – accounting for other post-employment benefits dated June 14, 2010.

Functional Expenses

For external reporting purposes, public colleges and universities may report expenses by function or by natural classification. As directed by the Fiscal Standards and Accountability Committee, the categories to be used for the expenses by function in the footnotes include the following expenditures by activity codes:

- Instruction (0100-5900)
- Academic Support (6000-6100)
- Student Services (6200-6400)
- Operation and Maintenance of Plant (6500)
- Institutional Support (6600-6700)
- Community Service and Economic Development (6800)
- Auxiliary Services, Auxiliary Operations (6900-7000)
- Student Aid (portion of 7300)
- Physical Property (non-capitalized), Interest and Other Outgo (7100-balance of 7300)
- Depreciation

There are no specific directives from GASB Statement No. 35 as to where this information should be reported, other than reference made to the effect that public colleges and universities may report expenses by function or by natural classification. However, if natural classification is presented on the Statement of Functional Expenses, it must also be reported. The illustrative report in the CDAM shows this information reported as a footnote. Other accepted presentations include this schedule in the MD&A or in the Supplementary Information. From the Contracted District Audit Manual, the following is a sample Functional Expense Disclosure:

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional	$29,274,706	$ 5,026,096	$ 2,798,280	$	$	$37,099,082
Academic Support	3,976,191	791,782	2,513,270			7,281,243
Student Services	6,560,715	1,170,461	1,606,419			9,337,595
Operation & Maintenance of Plant	2,783,334	722,932	4,508,339			-
Institutional Support	4,721,727	3,339,256	3,057,380			11,118,363
Community Services and Economic Development	746,536	80,326	466,380			1,293,242
Ancillary Services and Auxiliary Operations	1,494,072	321,303	7,254,799			9,070,174
Student Aid						-
Other Outgo	149,107	22,950	3,705,129			3,877,186
Depreciation Expense					7,800,000	7,800,000
Total	$49,706,388	$11,475,106	$ 25,909,996	$ -	$ 7,800,000	$86,876,885

Functional Expense disclosures, regardless of where they are reported in the financial statements, should consist of operating expenses for all consolidated funds only. The total should reconcile to Total Operating Expenses on the Statement of Revenues, Expenses, and Changes in Net Assets.

In addition to the supplementary information included in the audited financial statements such as the Schedule of Expenditures of Federal Awards and the workload Measures for State General Apportionment.

Management's Discussions and Analysis is part of the Required Supplementary Information as is the **Schedule of Other Postemployment Benefits (OPEB) Funding Progress.** This schedule follows the Notes to the Financial Statements, and provides the reader with information based on the actuarial study obtained by the district for post employment benefits. The footnote disclosure will provide the policies of the district and the covered employees as well as current year expense and funding. The supplementary information will provide information related to the actuarial value of assets (if the district is funding OPEB) and the actuarial accrued liability to show the current unfunded liability. The primary components of the information presented are included in the district's actuary report for the OPEB. This actuary report is to be obtained from an outside actuary and is to be completed every three years.

Supplementary Information

Supplementary information contained within the annual financial statements may be required by funding authorities such as the Single Audit Clearinghouse requirement for the Schedule of Expenditures of Federal Awards, or by the State Chancellor's Office as described in the CDAM. As the financial statement presentation under GASB Statements No. 34 and 35 is on a full accrual basis and provides for consolidated reporting of district funds and activities, the **Reconciliation of Governmental Funds to the Statement of Net Assets** has become critical in bringing the fund level financial statement balances reported on the modified accrual basis of accounting to the full accrual presentation on the statement of net assets. There are two options in providing this information:

A sample reconciliation using Option #1.

General Fund	$ 12,002,869
Bond Interest and Redemption Fund Balance	2,122,639
Revenue Bond Construction Fund Balance	7,754,182
Capital Outlay Projects Fund Balance	564,748
Student Financial Aid and Trust Fund Balance	121,523
All Other Funds	2,396,015
Total Audited Fund Balances as reported on the Annual Financial and Budget Report (CCFS-311)	24,961,976
Auxiliary Fund Balances (not reported on CCFS-311)	1,231,321
Net audit adjustments, see page __	725,465
Total Ending Fund balances	$ 26,918,762
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. However, capital assets, net of accumulated depreciation are added to total net assets.	184,256,927
Compensated absences and load banking are not due and payable in the current period, and therefore are not reported in the governmental funds.	(1,816,211)
Short-term and long-term liabilities, including bonds, certificates of participation, financing agreement and capital leases are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds. Short-term and long-term liabilities are added to the statement of net assets which reduces the total net assets reported.	(6,281,709)
Issuance costs related to bonds incurred through June 30, 20XX are capitalized and added to total net assets.	1,123,177
Interest expense related to bonds incurred through June 30, 20XX are required to be accrued under full accrual basis of accounting. This liability is added to the statement of net assets, which reduces the total net assets reported.	(1,077,810)
Employer contributions for other postemployment retirement benefits which are less than the actuarically determined required contribution are recognized as a liability	(120,052)
Reduction for Post Retirement Employee Benefits (OPEB) for amounts held in an irrevocable trust and reported as fiduciary activity.	(958,558)
Total Net Assets	$ 202,044,526

A sample reconciliation using Option #2.

XXXX COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
AND RECONCILIATION WITH STATEMENT OF NET ASSETS AND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 20XX

Description	General Fund	Bond Interest and Redemption Fund	Revenue Bond Construction Fund	Capital Projects Funds	Student Financial Aid Fund	All Other Funds	Total
REVENUES:							
Federal Revenues	$ 1,057,712	$	$	$	$ 1,016,766	$	$ 2,074,478
State Revenues	11,677,566	15,509		538,976	188,000		12,420,051
Local Revenues	5,264,085	1,994,755	475,354	807,975	45,492	3,566,475	12,154,136
TOTAL REVENUES	17,999,363	2,010,264	475,354	1,346,951	1,250,258	3,566,475	26,648,665
EXPENDITURES							
Academic Salaries	6,828,973						6,828,973
Classified Salaries	4,335,218					148,068	4,483,286
Employee Benefits	3,383,267					51,124	3,434,391
Supplies and Materials	235,989		1,654,646	3,646		300	1,894,581
Other Operating Expenses and Services	2,410,025		3,313,456	233,249	139,574	3,251,023	9,347,327
Capital Outlay	219,780		5,678,977	3,531,976		43,193	9,473,926
TOTAL EXPENDITURES	17,413,252	-	10,647,079	3,768,871	139,574	3,493,708	235,209,585
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	586,111	2,010,264	(10,171,725)	(2,421,920)	1,110,684	72,767	(8,813,819)
NET OTHER FINANCING SOURCES (USES)	(695,368)	(1,818,937)	(1,818,937)	446,596	(1,175,647)		(5,062,293)
NET INCREASE (DECREASE) IN FUND BALANCE	(109,257)	191,327	(11,990,662)	(1,975,324)	(64,963)	72,767	(13,876,112)
BEGINNING FUND BALANCE:	12,112,126	1,931,312	19,744,844	2,540,072	186,486	2,323,248	38,838,088
ENDING FUND BALANCE	$ 12,002,869	$ 2,122,639	$ 7,754,182	$ 564,748	$ 121,523	$ 2,396,015	$ 24,961,976

RECONCILIATION TO INCREASE IN NET ASSETS	
Net Decrease in Fund Balance	$ (13,876,112)
Capitalized assets	11,345,646
Depreciation expense	(7,800,000)
Increase in compensated balances	(689,574)
Principal payments of notes payable	5,993,682
Principal payments of bonds	7,374,268
Bond accrued interest	1,767,454
Bond accreted interest	(1,733,902)
INCREASE IN NET ASSETS	$ 2,381,462

RECONCILIATION TO NET ASSETS	
Auxiliary Ending Fund Balances (not reported on CCFS-311)	1,231,321
Net audit adjustments, see page __	725,465
Capital assets, net	184,256,927
Compensated absences balances, long term	(1,816,211)
Bond payable and accrued interest	(7,284,074)
Bond issuance cost	1,123,177
Notes payable	(75,445)
OPEB - Employer contributions	(120,052)
OPEB - Amounts held in irrevoable trust	(958,558)
NET ASSETS	$ 202,044,526

CONVERSION / CONSOLIDATION ENTRIES

The following information is provided to assist in the various adjustments that are necessary to convert the fund financial statements required by the modified accrual basis of accounting, to the entity-wide full accrual basis of accounting is required by GASB Statement No. 35 using the BTA model. These conversion entries are solely for financial statement reporting purposes and will not be posted in the fund-based financial accounting records. While these entries are made at year-end for the annual audited financial statement presentation, each district must be familiar with the entries, and be prepared to provide the necessary entries and/or supporting documentation.

This section will provide examples of the major and most widely recognized conversion entries. Other possible entries may also be required by an individual district and will need to be reviewed in accordance with GASB Statement No. 35 guidance.

Only the governmental fund types are currently using the modified accrual basis of accounting. Proprietary fund types (internal service funds and enterprise funds) account for transactions using the full accrual basis of accounting. The fiduciary fund types include the trust and agency funds which are accounted for using the full accrual basis of accounting.

In addition to the described conversion entries, consolidating journal entries may also be needed to eliminate inter-fund transactions between both the governmental fund types and the proprietary fund types.

The conversion process is a two part process which requires the prior year entries be posted to the beginning net asset balance, and then the effect of current year activity recognized. The entries that follow will start with the typical consolidating journal entries and then move to the conversion entries required for full accrual basis financial statements. The journal entries that are included within this section are sample entries with amounts included for illustration purposes only. Other entries may be necessary for a specific district and not all the illustrated entries may be required.

TYPICAL CONSOLIDATING ENTRIES

Due To’s and Due From’s

All interfund payables and receivables will need to be reconciled to first ensure the balances between funds are in agreement. A consolidating journal entry to eliminate the entries on an entity-wide basis is needed.

Debit	Accounts Payable (Due To Other Funds)	$200,000	
	Credit Accounts Receivable (Due From Other Funds)		$200,000

To eliminate Interfund Due To’s and Due From’s

Interfund Transfers

All interfund transfers will need to be reconciled to ensure the balances between funds are in agreement. A consolidating journal entry to eliminate the effect of the transfers on the entity-wide financial statements is needed:

Debit	Interfund Transfers In	$150,000	
	Credit Interfund Transfers Out		$150,000

To eliminate Interfund Transfers

Interfund Revenue and Expense

Examples may include the payment of insurance premiums to the self insurance fund by the general fund, post employment benefit premiums accounted for in a proprietary fund or charges for food services between the cafeteria fund and other funds.

Debit	In-District Premium Revenue	$625,000	
	Sales Revenue	45,000	
	Credit Employee Benefits Expense		$300,000
	Insurance Premium Expense		325,000
	Food Supplies Expense		45,000

To eliminate Interfund Revenue and Expense

Other interfund activities may be accounted for within the fund financial statements which will need to be analyzed to determine whether revenues and expenses are overstated on the entity-wide financial statements. If other interfund activities are identified, a consolidating entry to eliminate those activities will be needed.

TYPICAL CONVERSION ENTRIES

In order to bring prior year activity to the beginning net asset balance of the consolidated entity-wide financial statements, the following entries should be made:

ASSET ACCOUNTS

The typical asset accounts which require analysis include Non-Current Assets such as Notes Receivable, Capital Assets, and other assets resulting from debt issuances such as Deferred Costs on Issuance.

Accounts/Notes Receivable

Accounts and notes receivable within the fund financial statements are recorded as the payments are received as current year income. The full accrual, entity-wide financial statements will record the transaction in the initial year. Subsequent payments received will reduce the asset balance.

Debit	Notes Receivable		$ 1,500,000	
	Non-Current Assets		750,000	
	Credit	Beginning Net Asset Balance		$ 2,250,000

To record Beginning Balances of Notes and Non-Current Assets

The collectability of the Notes and Non-Current Assets will need to be evaluated and an allowance for doubtful accounts established if needed.

Debit	Beginning Net Asset Balance		$ 100,000	
	Credit	Allowance for Doubtful Accounts		$ 100,000

To record Beginning Balance of Allowance for Doubtful Accounts

Capital Assets

Assets purchased and recorded in the prior year will be brought into the financial statements with one conversion entry noting each class of asset and the related accumulated depreciation. Current year activity recorded within the fund modified accrual basis financial statements will be described within the following Current Year Activity section.

Debit	Land	$ 28,000,000	
	Construction in Progress	52,000,000	
	Buildings	450,000,000	

Equipment		28,000,000	
Credit	Accumulated Depreciation - Buildings		$ 85,000,000
	Accumulated Depreciation - Equipment		21,000,000
	Beginning Net Asset Balance		452,000,000

To record Beginning Balances of Capital Assets

All assets belong to the district as a whole. Capital assets recorded in the Proprietary Fund types and Fiduciary Fund types should be excluded from the above conversion entry to prevent double counting.

LIABILITY ACCOUNTS

The typical liability accounts which require analysis include the Non-Current Debt and Notes Payable. A review should be performed to understand and account for all obligations beyond one year that are not included within the modified accrual basis of accounting for the Governmental Fund types. Once the beginning balances are established, the current year activity which is reported as Other Financing Sources/Uses and Issuance Costs will be discussed in the following Current Year Activity section.

Debit	Beginning Net Asset Balance		$302,025,000	
	Credit	General Obligation Bonds Payable		$280,000,000
		Other Post Employment Benefits		8,500,000
		Notes Payable		10,000,000
		Compensated Absences Payable		3,250,000
		Capital Leases Payable		125,000
		Other Non-Current Obligations		150,000

To record Beginning Balances of Non-Current Obligations

Other Non-Current Obligations may include Supplemental Early Retirement Payments (SERP), Certificates of Participation (COPs), and other obligations entered into having long term effects on the financial statements.

When bond debt is issued by the district, it may be issued at a premium or a discount and include costs of issuance. These transactions are accounted for in the fund based accounts at the time of the initial transaction. However, on a full accrual basis the total premium, discount, and costs will be reflected on the balance sheet as an asset or liability, and amortized over the life of the obligation as discussed in the following Current Year Activity section.

Debit	Deferred Costs on Issuance		$2,600,000	
	Credit	Bond Premium		$ 500,000
		Beginning Net Asset Balance		2,100,000

To record Beginning Balance of Unamortized Deferred Costs on Issuance and Bond Premium

CURRENT YEAR ACTIVITY

Current Year Activity will require additional conversion entries for financial statement presentation. The following are the most likely required adjustments:

Student Tuition and Fees and Corresponding Fee Waivers

Student tuition and fees are generally recorded net of fee waivers. An entry is required to properly disclose the gross amount of fees and the full financial support to students.

Debit	Scholarship discount and allowance		$ 3,200,000	
	Credit	Student tuition and fees		$ 3,200,000

To record effect of fee waivers on student tuition and fee revenue

Capital Assets

Within each governmental fund type, review the amounts charged for any activity that meets your asset capitalization policy and prepare a detail listing.

The following are typical conversion entry adjustments:

Debit	Construction in Progress		$26,000,000	
	Credit	Construction expense		$26,000,000

To record current year construction project activity NOTE: You may also need to analyze the 4000 and 5000 object codes for supplies and services related to capitalizable projects

Debit	Buildings		$46,000,000	
	Credit	Construction in Progress		$46,000,000

To record completed projects placed in service during the year

Debit	Equipment		$ 430,000	
	Credit	Equipment expense		$ 430,000

To record current year equipment purchases meeting the district's capitalization threshold

Debit	Depreciation Expense		$ 8,500,000	
	Credit	Accumulated Depreciation - Buildings		$ 7,850,000
		Accumulated Depreciation - Equipment		650,000

To record current year depreciation expense

During the year equipment may be scrapped, sold, or otherwise disposed of and expenses previously capitalized in Construction in Progress accounts may be determined to no longer be valid projects of the District. These expenses may include planning costs or architectural services for projects that will not be started by the district. The following entry may be necessary to reconcile the disposals and project deletions:

Debit	Accumulated Depreciation - Equipment		$ 290,000	
	Loss on Disposal of Equipment		20,000	
	Buildings, Maintenance and Repairs		975,000	
	Credit	Equipment		$ 310,000
		Construction in Progress		$ 975,000

To record sale of equipment and results of analysis of Construction in progress accounts

The District may also receive a donation of land, buildings, or equipment that meets the capitalization threshold established by asset capitalization policy. This donated asset should be recorded within the capital asset accounts and entity-wide financial statements at the donated value (supported by an appraisal if available). In the following example, the District received a donation of land with a value of $275,000 with a building valued at $1,000,000 which will be used in the administrative operations of the District.

Debit	Land	$ 275,000	
	Buildings	1,000,000	
	Credit Donation Revenue (Other Non Operating Revenue)		$ 1,275,000

To record donation of property received during the year

If the donated property (land & building) will not be used within the operations of the District, but instead the intent is to resell the property, the entry would be:

Debit	Capital Asset Held for Resale	$ 1,275,000	
	Credit Donation Revenue (Other Non Operating Revenue)		$ 1,275,000

To record donation of property held for sale

At the time of the re-sale in subsequent years, the entry will be following - assuming a sales price of $1,300,000:

Debit	Cash		$ 1,300,000	
	Credit	Capital Asset Held for Resale		$ 1,275,000
		Gain on Sale of Asset		25,000

To record sale of previously donated asset

Note Receivable

Payments received on a note receivable are recorded as current year income within the modified accrual basis governmental funds; however, on a full accrual basis the asset has been recorded and revenue recognized within the year the contract was signed. While interest income remains a current year activity, the principal received is a reduction of the recorded asset and not new revenue.

Debit	Local Revenue		$ 200,000	
	Credit	Note Receivable		$ 200,000

To record receipt of current year note payment

Long Term Obligations

The effect of long term obligations may be recorded throughout the various governmental fund types. On a consolidated basis only one conversion entry needs to be recorded to properly affect the entity-wide full accrual financial statements. The current year activity may increase or decrease the long-term obligations. The following are the most common and may be posted individually or in the aggregate:

Compensated Absences

The net increase or decrease in the district's obligation to employees for compensated absence will be recorded. Each district will need to analyze their compensated absences as to whether or not the benefit vests with the employee. Typical vested benefits include vacation, compensatory time, and load banking.

Debit	Salary and Benefit Expense		$ 625,000	
	Credit	Compensated Absences Payable		$ 625,000

To record current year net usage of compensated absences

Capital Leases

Current year payments of capital leases are expensed within the modified accrual basis governmental fund types. However the principal is accounted for on the full accrual balance sheet as an obligation of the district and the current year principal payment will reduce this benefit. Interest is expensed as incurred.

Debit	Capital Leases Payable		$ 75,000	
	Credit	Rents and Leases		$ 75,000

To record current year principal payment of capital lease obligation

Long-Term Obligations

The district may enter into various types of debt to finance capital construction - primarily through General Obligation Bonds or Notes Payable, Certificates of Participation or other long-term agreements. As noted above, the payments within the modified accrual governmental fund types are recorded as a current period expense - both principal and interest. For the entity-wide full accrual financial statements, the current year principal payments will be recorded as a reduction of the full obligation.

Debit	General Obligation Bonds Payable		$ 11,500,000	
	Note Payable		3,250,000	
	Credit	Debt Service Expense Principal		$ 14,750,000

To record current year principal payments

To reflect new issuances of General Obligation Bonds or new Notes Payable issued:

Debit	Proceeds from Debt Issuance		$ 56,000,000	
	Deferred Costs on issuance		1,000,000	
	Credit	General Obligation Bonds Payable		$ 57,000,000

To record issuance of General Obligation Bonds

Many bond obligations will also have a premium or discount at the time of issuance that is amortized over the life of the obligation. In the example noting the beginning balance adjustments above there is a $2,600,000 asset for the Deferred Costs of Issuance that is included within the full accrual entity-wide financial statements. The amortization of the asset is a component of interest in the current year and accounted for as follows:

Debit	Interest Expense		$ 200,000	
	Credit	Deferred Costs of Issuance		$ 200,000

To record amortization of Bond issuance costs

Each year the liability for interest on bond and debt issuances that has accrued as of year-end, but is not due until the following fiscal year, must be accounted for within the full accrual, entity-wide financial statements. In the following example, principal and interest are due April 1 and October 1 of each year. The interest that accrues from April 1 through June 30, is a liability that will be recognized at year end as follows:

Debit	Interest Expense		$ 3,250,000	
	Credit	Accrued Interest Payable		$ 3,250,000

To record three months of interest payable as of year end

If not fully funded, the district is required to book the long term costs of Other Post Employment Benefits (OPEB) as of year-end. In the illustration of the beginning balance entries, the prior year accumulated liability of $8,500,000 is brought in to the beginning balance. At year end the current year component of the actuarially determined net OPEB obligation will need to be recorded. The offsetting entry will be employee benefit expense on the entity-wide financial statements:

Debit Employee Benefit expense		$ 8,500,000	
Credit	Other Post Employment Benefits Liability		$ 8,500,000

To record current year OPEB Expense

This listing is not all inclusive of every consolidating or conversion entry that is necessary to bring the Modified Accrual Fund financial statements in compliance with GASB Statement No. 35 *"Full Accrual Entity-Wide"* financial statement presentation. Discussions with your district auditors will assist in identifying other entries that are necessary for the individual district.