

2005-06 FINANCIAL REPORTING UPDATE

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Statement of Net Assets

If the June 30 balance of repurchase agreements exceeds the book balance, the difference will be considered a check payable liability and reported on the other liabilities line.

The Deposits with Trustee balance should not include unexpended bond proceeds, the TSSBA interest rate reserve, or investments of the institution.

The TSSBA interest rate reserve should be reported as prepaid expense, not Deposits with Trustees or investments.

Unexpended bond proceeds are a reduction of the bond payable, not a Deposit with Trustee, Deposit Held by State, or LGIP Deposit – Capital Project.

An additional allocation of fund balance has been added – Restricted, nonexpendable for instructional department uses. This will have a larger impact on the component units than the institutions.

Statement of Cash Flows

The Statement of Cash Flows for the component unit will not appear on the face of the Statement of Cash Flows for the institution. Instead, the component unit's Statement of Cash Flows will be presented as Supplementary Information behind the Notes to the Financial Statements. The FinStatementFormat.xls file reflects this change.

Notes

You must use the Word document included as Attachment B. Do not use last year's notes.

We are now reporting two years of information in the note disclosures. The FY 2005 information will agree to your FY 2005 printed financial statements.

Deposit Note – The deposit note has been revised to better reflect the requirements of GASB 40. If there is no exposure to custodial credit risk, this note may be deleted.

Investment Note - Instead of listing all the US government securities separately, many can be classified into two groups – US Treasury and US Agencies. US Treasury includes items backed by the full faith and credit of the US government such as treasury notes, treasury bonds, treasury bills, treasury STRIPS, CATS, and Government National Mortgage Association (Ginnie Maes). US

Agencies are independent organizations sponsored by the US government, such as Federal Farm Credit Banks, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Student Loan Marketing Association. These agencies are not backed by the full faith and credit of the US government.

Investment credit risk – Only applies to debt securities, including external investment pools, money market funds, and bond mutual funds. US Treasury obligations are not subject to credit risk but US agency obligations are. Repurchase agreements are not subject to credit risk if the securities underlying the repurchase agreement are exempt from credit risk. Mutual funds that invest solely in US treasury obligations still are exposed to some degree of credit risk and the credit quality rating must be disclosed. If a credit risk disclosure is required but the investment is unrated, that fact must be disclosed. I have revised our credit risk disclosure table at the request of the Department of Finance and Administration. The ratings from all three nationally recognized statistical rating organizations (S&P, Moody's, and Fitch) must be obtained, the rating that exhibits the highest exposure to risk must be chosen, then this rating must be converted to the S&P long-term standard using the table below:

	Long-term rating scales comparison			Short-term rating scales comparison		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Investment Grade	AAA	Aaa	AAA	A-1+	P-1	F1+
	AA+	Aa1	AA+	A-1+	P-1	F1+
	AA	Aa2	AA	A-1+	P-1	F1+
	AA-	Aa3	AA-	A-1+	P-1	F1+ or F1
	A+	A1	A+	A-1	P-1	F1+ or F1
	A	A2	A	A-1 or A-2	P-1 or P-2	F1
	A-	A3	A-	A-2	P-2	F1 or F2
	BBB+	Baa1	BBB+	A-2	P-2	F2
	BBB	Baa2	BBB	A-2 or A-3	P-2 or P-3	F2 or F3
	BBB-	Baa3	BBB-	A-3	P-3	F3
Speculative Grade (or high yield)	BB+	Ba1	BB+	B	Not Prime	B
	BB	Ba2	BB	B	Not Prime	B
	BB-	Ba3	BB-	B	Not Prime	B
	B+	B1	B+	B	Not Prime	C
	B	B2	B	B	Not Prime	C
	B-	B3	B-	B	Not Prime	C
	CCC+	Caa1	CCC+	C	Not Prime	C
	CCC	Caa2	CCC	C	Not Prime	C
	CCC-	Caa3	CCC-	C	Not Prime	C
	CC	Ca	CC	C	Not Prime	C
C	C	C	C	Not Prime	C	

As an example, suppose you have a long-term investment with the following ratings: S&P-A+, Moody's-A3, Fitch-A. Of these three, the Moody's rating exhibits the highest degree of risk (A3). Using the conversion chart above, the S&P standard for Moody's A3 rating is A-. Therefore, you would classify this rating as A-. However, since we are not required to disclose the credit modifiers (+ or -), this will be grouped with the A ratings in your note disclosure.

As a second example, suppose you have a short-term investment with the following ratings: S&P-A-1, Moody's-P-1, Fitch-F1. Because the long-term and short-term ratings, do not match one-to-one, it is difficult to determine which rating determines the highest degree of risk. To err on the side of conservatism, you should select the lowest possible choice on the table above, which is Fitch's F1 rating. The F1 rating with the highest degree of risk exposure corresponds to the S&P

long-term standard of A-. However, since we are required to disclose the credit modifiers (+ or -), this would be grouped with the A ratings in your note disclosure.

Concentration of credit risk – Investments issued or explicitly guaranteed by the US government and investments in mutual funds and external investment pools are excluded from this disclosure.

Interest rate risk – Since mutual bond funds invest in many debt issues with different maturity dates, a weighted average maturity must be computed. The weighted average maturity is the average of all debt investment maturities weighted by the par value of each investment.

Foreign currency risk – Foreign currency risk disclosures should be made for all investments, including debt, equity, and real estate investments.

Long-term liabilities note – The commercial paper section has been revised to disclose the requirements of FASB 6. The majority of commercial paper is issued with the intent to refinance when construction is substantially complete. FASB 6 requires that short-term debt issued under this type of refinancing agreement be classified as a long-term liability.

Also, do not include administrative costs in the interest column of the long-term liabilities disclosures. The administrative costs will be ignored when completing the tables in this note disclosure.

Endowment note – The endowment note has been revised to better reflect the net asset classification of any net appreciation.

Insurance-related activities note – The note has been revised to reflect the restructuring and renaming of the Claims Award Fund.

Restatement note – The changes required for the proper implementation of FASB 6 appears material for the system as a whole and FY 2005 amounts should be restated. No other amounts should be restated. Audit adjustments should be handled through either a prior period adjustment or, if immaterial, through current year activity.

Impairment of Capital Assets note – This note has been added due to GASB 42. Immaterial impairments are not subject to the requirements of GASB 42.

Component Unit note – The applicable revisions above have also been made to this disclosure.

All non-applicable notes should be deleted from the Word document and the remaining notes should be numbered sequentially.

Statement of Activities (Included with Supplemental Schedules)

The component unit's investment earnings will be reported on separate line under the Program Revenues section.

Restricted gifts and grants will be reported in the Program Revenues section as Operating Grants and Contributions or Capital Grants and Contributions, depending upon purpose.

Research grants and contracts (exchange transactions) will be reported in the Program Revenues section as Operating Grants and Contributions or Capital Grants and Contributions, depending upon purpose.

The institution's unrestricted gifts and grants will be reported in the General Revenues section as Grants and Contributions not Restricted to Specific Programs. The component unit's gifts will be reported in the Program Revenues section as Operating Grants and Contributions.

Capital appropriations will be reported in the Program Revenues section as Capital Grants and Contributions.

Restricted investment income will be reported in the Program Revenues section as Operating Grants and Contributions, not in the General Revenues section as investment income.