DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL			
SUBJECT:	Accounting and Reporting	**Number:**	15.05.00
DIVISION:	Chief Financial Office	**Effective date**:	February 13, 2017
Chapter:	Accounting and Financial Reporting		
Part:	GAAP Hierarchy		
Section:			
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: The purpose of this policy is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements presented in conformity with generally accepted accounting principles (GAAP).

AUTHORITY: **ORS 293.590**
GASB Statement No. 76

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by OAM Policy 01.05.00.

POLICY:

101. Agency management must ensure the proper accounting and reporting of agency operations in accordance with GAAP.

102. The GAAP Hierarchy sets forth what constitutes GAAP for all state and local government entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply.

103. The sources of authoritative GAAP are categorized in descending order of authority as follows:

    a. Officially established accounting principles - Governmental Accounting Standards Board (GASB) Statements (Category A)

    b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by GASB (Category B)

    Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), and when presented in the Codification, it retains its authoritative status.

104. If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, consider whether the accounting treatment is specified by a source in Category B.

105. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described in paragraph 103, first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described in paragraph 103 and then one may consider nonauthoritative accounting literature from other sources, as identified in paragraph 106, that does not conflict with or contradict authoritative GAAP. Do not apply accounting principles specified in authoritative GAAP described in paragraph 103 to similar transactions or other events if those accounting principles either (a) prohibit the application of the accounting treatment to the particular transaction or other event or (b) indicate that the accounting treatment should not be applied by analogy.

106. Sources of nonauthoritative accounting literature:

- GASB Concepts Statements
- The pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB
- Practices that are widely recognized and prevalent in state and local government
- Literature of other professional associations or regulatory agencies
- Accounting textbooks, handbooks, and articles

The appropriateness of the nonauthoritative accounting literature depends on the consistency of the literature with the GASB Concepts Statements, the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer or author as an authority.

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	Number:	15.10.00
Division:	Chief Financial Office	Effective date:	June 1, 2013
Chapter:	**Accounting and Financial Reporting**		
Part:	**Cash and Cash Equivalents**		
Section:			
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for cash and cash equivalents.

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AUTHORITY:

ORS 291.040
ORS 293.590
GASB Statement No. 3
GASB Statement No. 9
GASB Statement No. 34
GASB Statement No. 40

APPLICABILITY: This policy applies to all state agencies included in the state's financial statements, except those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS:

Cash: Cash includes currency on hand and currency in deposits with banks or other financial institutions. Cash also includes deposits in accounts or cash management pools that have the general characteristics of demand deposit accounts, which means the State may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

Cash Equivalents: Cash equivalents are short-term, highly liquid investments that are both a) readily convertible to known amounts of cash and b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities[1] of three months or less meet this definition. Examples of common cash equivalents are U.S. Treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools.

[1] Original maturity means the original maturity to the State (the holder of the investment). For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a U.S. Treasury note purchased three years ago does not become a cash equivalent when its remaining term is three months.

Click here for other **definitions**.

POLICY:

101. Agency management is responsible for ensuring the proper accounting and reporting of cash and cash equivalents.

102. This policy establishes classification criteria and disclosure requirements for state agencies that report **cash and cash equivalents** for both agency and statewide accounting and financial reporting purposes.

Cash and Cash Equivalent Examples

103. The following are examples of cash and cash equivalents:

a. Cash on hand

b. Cash deposits in the Oregon State Treasury

c. Cash deposits with banks, savings and loan associations, and credit unions

d. Cash deposits in designated/restricted, agency-specific investment funds held by a trustee or custodian at a depository bank

f. Cash deposits within certificates of participation or bond investment funds held by a trustee or custodian in a depository bank for one or more state agencies

g. Cash deposits in commercial mortgage-security-reserve accounts

h. Cash deposits with custodial banks, which act as agents on behalf of the Oregon Public Employees Retirement System

i. Treasury bills, commercial paper, certificates of deposit, and money market funds

j. The **Oregon Short-Term Fund (OSTF)**, which includes the **Local Government Investment Pool**. Note: The OSTF operates as a demand deposit account; therefore, this balance is recorded as "Cash in Treasury" in **R*STARS**. However, for financial statement note-disclosure purposes, the invested balance of the OSTF is included in the investment detail.

Restricted Cash and Cash Equivalents

104. **Restricted assets** have constraints (shown in paragraph .106 below) on the asset's use, which change the "available nature" of the asset. For example, agencies typically classify cash and cash equivalents as current assets, in which restrictions do not limit the agency's ability to use the resources to pay current liabilities. However, cash and cash equivalents set aside as part of long-term debt agreements (as required by bond indentures or COP financing agreements) are restricted cash and cash equivalents.

105. Assets are restricted when constraints placed on asset use are either:

a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or

b. Imposed by law through constitutional provisions or enabling legislation.

Cash and Securities Held in Trust

106. The term “restricted” is not applicable to amounts in general ledger account 0335, Savings and Time Certificates of Deposit Held in Trust and general ledger account 0330, Securities Held in Trust. These general ledger accounts are already in balance sheet class 021, Cash and Securities Held in Trust. As the titles indicate, agencies hold these amounts in trust for individuals and entities external to the State.

PROCEDURES:

Reporting Cash and Cash Equivalents

107. At year-end, reclassify restricted cash and cash equivalents held outside the State Treasury to general ledger account 0928, Cash and Cash Equivalents - Restricted. In the first month of the new fiscal year, reverse these reclassifications.

108. For restricted cash and cash equivalents that are in the State Treasury, complete a year-end disclosure form to indicate the amount. Restricted cash should remain classified under general ledger account 0070, Cash in State Treasury, to ensure proper cash control. Statewide Accounting and Reporting Services (SARS) will reclassify these amounts to restricted cash and cash equivalents during the compilation process.

109. The following general ledger accounts report cash and cash equivalents, including deposits held in trust. See **OAM 60.10.00** for definitions of each general ledger account.

a. 0065 Unreconciled Deposit

b. 0070 Cash on Deposit with Treasurer

c. 0072 Cash on Hand

d. 0075 Cash on Deposit - Suspense Account at Treasury

e. 0077 Cash in Bank

f. 0080 Cash with Fiscal Agents - Restricted Current

g. 0081 Cash with Fiscal Agents - Unrestricted

h. 0085 Cash Equivalent

i. 0335 Savings and TCD Held in Trust

j. 0928 Cash and Cash Equivalents - Restricted

Disclosure Requirements

110. Generally, accepted accounting principles require the disclosures listed below to be included in the **Comprehensive Annual Financial Report**. Complete year-end disclosure forms to provide SARS with disclosure information related to deposits. Agencies that issue separately audited financial statements also include these disclosures in their notes, as applicable.

a. Significant violations of legal or contractual provisions for deposits

b. The bank balance of deposits exposed to **custodial credit risk**

c. The restriction purposes for deposits

d. The U.S. dollar balances of deposits exposed to **foreign currency risk**, organized by currency denomination

DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	Number:	15.15.00
Division:	Chief Financial Office	Effective date:	May 1, 2013
Chapter:	**Accounting and Financial Reporting**		
Part:	**Investments**		
Section:			
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for investments.

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AUTHORITY:
ORS 291.040
ORS 293.590
GASB Statement No. 3
GASB Statement No. 31
GASB Statement No. 34
GASB Statement No. 40
Accounting Research Bulletin No. 43

APPLICABILITY: This policy applies to all state agencies included in the State's financial statements, except those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: **Current investments:** Investments the agency could liquidate to meet current obligations and for which a readily available market exists.

Non-current investments: Investments the agency cannot liquidate to meet current obligations because a readily available market does not exist.

Restricted investments: Investments with externally imposed constraints on their use placed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

POLICY:

101. Agency management is responsible for ensuring the proper accounting and reporting of investments.

102. This policy establishes classification criteria, valuation guidelines, and disclosure requirements for state agencies that report investments for both agency and statewide accounting and financial reporting purposes.

103. All investments require fair value reporting except as noted below.

104. Fair value information is available from the Office of the State Treasurer (Treasury) for investments held at Treasury and from the Budget and Management Division (BAM) of the Department of Administrative Services for investments administered by BAM.

105. In some cases, legal or contractual provisions may require reporting investments at cost or amortized cost even though the investments are subject to fair value reporting. In such cases, year-end adjustment entries will reflect the change in fair value.

106. The following are examples of investments subject to fair value reporting:

a. Money market investments and participating interest-earning investment contracts held outside of the Oregon Short-term Fund (OSTF) with remaining maturities of more than one year

b. Mutual funds

c. Debt securities

d. Equity securities, option contracts, stock warrants, and stock rights that have readily determinable fair values. Report equity securities without readily determinable fair values at estimated fair value when held by governmental external investment pools, defined benefit pension plans, and IRC Section 457 deferred compensation plans.

e. Land and other real estate held as investments by endowments (including permanent funds), governmental external investment pools, defined benefit pension plans, or IRC Section 457 deferred compensation plans.

107. The following are examples of investments not subject to fair value reporting:

a. Seized debt securities that a government holds as evidence or as a potential fine

b. Contractors' deposits of debt securities

c. Equity securities accounted for under the equity method

d. Non-participating interest-earning investment contracts unless held by endowments (including permanent funds), governmental external investment pools, defined benefit pension plans, or IRC Section 457 deferred compensation plans.

e. Equity securities (including unit investment trusts and closed-end mutual funds), option contracts, stock warrants, and stock rights that do not have readily determinable fair values.

f. Investments in joint ventures

g. Trade accounts receivable arising from sales or credit

h. Loans receivable arising from real estate lending activities

i. Receivables that do not meet the definition of a security

j. The placement of long-term securities in an irrevocable trust that meets the requirements of a legal or in-substance defeasance

k. Money market investments and participating interest-earning investment contracts held outside of the Oregon Short-term Fund (OSTF) with remaining maturities of less than one year (provided that the credit standing of the issuer or other factors does not significantly impair the fair value of those investments).

l. Short-term debt investments held in the OSTF with remaining maturities of 90 days or less

PROCEDURES:

Recording Investments at Fair Value

108. Record investments at cost or par value in the appropriate investment account and record any premiums or discounts in the investment valuation account.

109. Record investments without par values at cost, without an entry to the investment valuation account.

110. When Treasury sells an investment, remove the par value from the investment account, along with a portion of the valuation account equal to the unamortized premium or discount.

111. Record all *realized* gains and losses on the sale of investments. Record *unrealized* gains and losses as changes in the fair value of investments. Typically, agencies record the changes in the fair value of investments as the last investment entry each month.

Recording Investments at Amortized Cost

112. Procedures to account for investments using amortized cost accounting are in section **TREA.4 (R*STARS)** of the SFMS Desk Manual.

Accounting for Investments Held at Treasury

113. Treasury investment transactions interface with R*Stars as part of the deposit reconciliation process. Agencies can view these amounts on State Street's Report Center report titled *Base Equivalent Cash Statement*. Use these daily and monthly reports to post balances to the proper accounts and objects in R*Stars.

114. Use TC 140 to record the purchase and sale of investments held by Treasury. Agencies can see information on investment purchases and sales on State Street's Report Center report titled *Purchases & Sales.* Cash balances posted to GL account 0065, Unreconciled Deposit, must represent the actual amounts of cash paid or received. Use TC 190 to record *realized* gains and losses from the sale of investments and interest earned. Agencies can check gain or loss calculations against State Street's *Realized Gain Loss* report.

115. The following is an example of how to record the purchase of an investment held at Treasury:

Transaction information:

- Cost of investment: $1,050
- Par value of investment: $1,000
- Purchased interest: $25
- Total cash paid: $1,075

TC 140R: To record the par value of the investment.

DR 0240 Investments - Designated	1,000	
CR 0065 Unreconciled Deposit		1,000

TC 140R: To record the amount paid for the investment in excess of par value.

DR 0245 Investment Valuation Acct - Designated	50	
CR 0065 Unreconciled Deposit		50

TC 183R: To record accrued purchased interest.

DR 0580 Accrued Interest Purchased	25	
CR 0065 Unreconciled Deposit		25

116. The following is an example of how to record the sale of an investment held at Treasury:

Transaction information:

- Cash proceeds received: $2,015
- Par value of investment: $2,000
- Unamortized premium: $20
- Loss on sale of investment: $5

TC 140: To remove the par value of the investment sold.

DR 0065 Unreconciled Deposit	2,000	
CR 0240 Investments - Designated		2,000

TC 140: To adjust the investment valuation account for an amount equal to the unamortized premium.

DR 0065 Unreconciled Deposit	20	
CR 0245 Investment Valuation Acct - Designated		20

TC 190R: To record a loss on sale of the investment.

DR 3100 Rev Ctrl - Cash (CO 2341 Incr/Dcr from Sale of Invest)	5	
CR 0065 Unreconciled Deposit		5

117. When agencies cannot post investment transactions daily, they may post the net cash received to GL account 0060, Undistributed Cash Receipts. Agencies can later use information from the State Street reports to reclassify the amounts to the appropriate GL accounts and comp objects.

118. Certain investments, such as private equity investments are illiquid, long-term investments without a readily available market. To ensure agencies report these investments accurately, make the following year-end entries (reverse the entries in the first month of the new fiscal year):

TC 474R: To remove long-term investments from current assets.

DR 2951 System Clearing General Ledger	5,000	
CR 0240 Investments - Designated		5,000

TC 474: To move long-term investments into noncurrent assets.

DR 0929 Investments - NonCurrent	5,000	
CR 2951 System Clearing General Ledger		5,000

Accounting for Investments Held Outside Treasury

119. Agencies use TC 490 to record purchases and sales of investments held outside the Treasury. When agencies sell these investments, use TC 481 to record *realized* gains and losses. Use TC 481 to record interest received on investments held outside the Treasury.

Accounting for Changes in the Fair Value of Investments

120. At the end of each month, record changes in the fair value of investments. Calculate this change by comparing the fair value of the investment to the book value. The book value is the investment's par value plus or minus the investment valuation account. Changes in the fair value of investments may be positive or negative depending on market conditions. Record decreases in fair value as negative revenue.

121. An example of how to record changes in the fair value of investments held at Treasury is:

Transaction information:

- Fair value per Treasury report: $2,500
- Fair value per books: $2,300
- Change in fair value: $200 increase

TC 487: To record the increase in the fair value of the investment.

DR 0245 Investment Valuation Acct - Designated	200	
CR 3200 GAAP Rev Offset (CO 0830 Net Incr/Decr in FV of Invest)		200

Accounting for Restricted Investments

122. **Restricted assets** arise when restrictions on the use of the asset change the nature of the asset's availability. For example, current assets normally include cash and investments. Restrictions do not normally limit the agency's ability to use these resources to pay current liabilities. However, if the agency has separate cash and investments to pay debt principal and interest, then report these assets as restricted assets. Restricted assets may also include invested debt proceeds or other resources (such as customer deposits).

123. At year-end, reclassify restricted investments, held outside the Treasury, to a separate general ledger account. The amount reclassified should equal the fair value, which includes the investment's par value, plus or minus the investment valuation account. In the first month of the new fiscal year, reverse the entry. Example entries to reclassify (Investments - Other) to (Investments - Restricted) are:

TC 474: To move restricted investments into the Investments - Restricted account.

DR 0940 Investments - Restricted	1,000	
CR 2951 System Clearing Account		1,000

TC 474R: To remove restricted investments from the Investments - Other account.

DR 2951 System Clearing Account	1,000	
CR 0250 Investments - Other		900
CR 0255 Investment Valuation Account - Other		100

124. When restricted investments are <u>at the Treasury</u>, complete a year-end disclosure form to show the amount of restricted investments. Do not reclassify restricted investments (held in Treasury) in R*Stars. This will ensure that designated investments in R*Stars will match Treasury records. SARS will reclassify these designated investments to restricted investments during compilation.

Year-end Entries for Receivables and Payables

125. The year-end Treasury reports provided to agencies may show outstanding broker receivables or broker payables for transactions in process. There may also be interest receivable. Reclassify these balances in R*Stars with the following entries and <u>reverse the entries in the first fiscal month of the following year</u>.

Step 1: Adjust Net Asset Value (NAV) including receivables (if applicable) to agree to Treasury.

TC 487: To show the increase to NAV.

DR 0245 Investment Valuation Acct – Designated	1,000	
CR 3200 GAAP Rev Offset (CO 0830 Net Incr/Decr in FV of Invest)		1,000

Step 2: Reclassify investment balances to report receivables.

TC 474: To reclassify to accounts or interest receivable.

DR 0503 (or 0576 Interest Receivable) Accounts Receivable	500	
CR 2951 System Clearing Account		500

TC 474R: To reclassify the amount out of investments.

DR 2951 System Clearing Account	500	
CR 0245 Investment Valuation Acct – Designated		500

Step 3: Adjust Net Asset Value (NAV) including payables (if applicable) to agree to Treasury.

TC 487R: To show the decrease to NAV.

DR 3200 GAAP Rev Offset (CO 0830 Net Incr/Decr in FV of Invest)	1,000	
CR 0245 Investment Valuation Acct – Designated		1,000

Step 4: Reclassify investment balances to report payables.

TC 475: To reclassify to accounts payable.

DR 2951 System Clearing Account	500	
CR 1215 Accounts Payable		500

TC 474: To reclassify the amount out of investments.

DR 0245 Investment Valuation Acct – Designated	500	
CR 2951 System Clearing Account		500

Financial Statement Reporting

126. Statewide Accounting and Reporting Services (SARS) combines and reports the balances in the investment general ledger accounts together with the balance in the investment valuation account.

127. SARS reports the change in the fair value of investments, dividends, interest, and realized gains and losses in investment income.

128. Changes in the fair value of investments are not cash flow transactions. SARS will report the change in fair value as noncash activity on the Statement of Cash Flows.

Disclosure Requirements

129. Report investment risk disclosures using "reported value". Depending on the type of investment, the reported value will represent balances at cost, amortized cost, or fair value.

130. For investment disclosure purposes in the schedule of **custodial credit risk**, use the standard investment categories and titles listed below.

Investments Subject to Custodial Credit Risk Categorization

- U.S. Treasury Securities
- U.S. Agency Securities
- U.S. Treasury Strips
- U.S. Agency Strips
- Domestic Equity Securities
- International Equity Securities
- International Debt Securities
- Commercial Paper
- Corporate Bonds
- Municipal Bonds
- Bankers' Acceptances
- Collateralized Mortgage Obligations
- Asset Backed Securities – Other
- Repurchase Agreements

Investments Not Subject to Custodial Credit Risk Categorization

- Mutual Funds
- Alternative Equities (includes leveraged buy-outs, limited partnerships, venture capital, etc.)
- Real Estate and Real Estate Mortgages
- Guaranteed Investment Contracts
- Annuity Contracts

131. For purposes of custodial credit risk disclosures, classify investment securities into the following three risk categories:

a. **Category 1:** Insured or registered, or securities held by the agency or its agent in the agency's name.

b. **Category 2**: Uninsured and unregistered, with securities held by the counterparty or the counterparty's trust department or its agent in the agency's name.

c. **Category 3**: Uninsured and unregistered, with securities held by the counterparty or the counterparty's trust department or agent, but not in the agency's name.

132. For disclosures regarding the **credit risk** associated with investments in debt securities, disclose credit quality ratings as described by national rating agencies. Aggregate these ratings by investment type and by credit quality rating. U.S. Treasuries and obligations explicitly guaranteed by the U.S. government have no credit risk; therefore, they are of the highest credit quality.

133. Investment credit quality ratings typically used for disclosure purposes include the following:

a. Highest credit quality is Aaa (Moody's), AAA (S&P) and AAA (Fitch).
b. Very high credit quality is Aa (Moody's), AA (S&P) and AA (Fitch).
c. High credit quality is A (Moody's, S&P, and Fitch).
d. Good credit quality is Baa (Moody's), BBB (S&P and Fitch).
e. Speculative grade credit quality is Ba (Moody's) and BB (S&P and Fitch).

134. For disclosures regarding the **interest rate risk** of investments in debt securities, disclose investment maturities by using the segmented time distribution method. Identify maturity distributions by investment type.

135. The following schedule is an example of the State's standard schedule of interest rate risk and credit quality disclosure.

		Investment Maturities (in years)				
Investment type	**Credit rating**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Total Reported Value**
U.S. Treasury Securities	-	$-	$-	$-	$-	$-
U.S. Agency Securities	-	-	-	-	-	-
U.S. Treasury Strips	-	-	-	-	-	-
U.S. Agency Strips	-	-	-	-	-	-
GNMA	-	-	-	-	-	-
Domestic Equity Securities	*n/a*	-	-	-	-	-
International Equity Securities	*n/a*	-	-	-	-	-
International Debt Securities	-	-	-	-	-	-
Commercial Paper						
Corporate Bonds	-	-	-	-	-	-
Municipal Bonds	-	-	-	-	-	-
Collateralized Mortgage Oblig.	-	-	-	-	-	-
Other:	-	-	-	-	-	-
Mutual Funds – Fixed Income Only	-	-	-	-	-	-
Mutual Funds – Non Fixed Income	*n/a*	-	-	-	-	-
Alternative Equities	*n/a*	-	-	-	-	-
Real Estate & Real Estate Mortg.	*n/a*	-	-	-	-	-
Guaranteed Inv. Contracts	*n/a*	-	-	-	-	-
Annuity Contracts	*n/a*	-	-	-	-	-
Total Investments		$ -	$ -	$ -	$ -	$ -

136. The disclosure associated with **concentration of credit risk** is at the statewide level with information provided by the Treasury and by the agencies. Agencies will complete a year-end

disclosure form for investments held outside of the Treasury. On the disclosure form, indicate if the investment in any one issuer is more than 5 percent of the total investments within a single GAAP fund. Total investments would be an aggregate of all investments (including restricted and unrestricted).

137. Exclude investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from concentration of credit risk.

138. The disclosure for **foreign currency risk** involves an analysis at the statewide level of Treasury and agency information. Agencies will complete a year-end disclosure form for investments held outside of Treasury. On the disclosure form, indicate the U.S. dollar balance of investments exposed to foreign currency risk, organized by currency and investment type.

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	**Number:**	15.20.00
Division:	Chief Financial Office	**Effective date:**	July 16, 2015
Chapter:	Accounting and Financial Reporting		
Part:	Derivative Instruments		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on the accounting and financial reporting of derivatives.

AUTHORITY:
ORS 291.015
ORS 293.590
GASB Statement No. 53
GASB Statement No. 59
GASB Statement No. 64

APPLICABILITY: This policy applies to all state agencies included in the state's financial statements, except those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: **Derivative instruments:** Complex financial arrangements used to manage risks or to make investments. Other data, such as bond or commodity prices, or indexes based on those prices, determine the fair values and cash flows of derivative instruments. By entering into these transactions, the parties involved make and receive payments without entering into the related financial or commodity transactions.

A derivative instrument is a financial instrument or other contract that contains all three of the following features:

a. Settlement factors. The derivative has:

- One or more reference rates(1) and
- One or more notional amounts(2) or payment provisions, or both.

b. Leverage. The derivative requires no initial net investment, or the initial net investment is smaller than required for other types of contracts expected to have a similar response to changes in market factors.

(1) A reference rate is an interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable. A reference rate may be a price or rate of an asset or liability but is not the asset or liability itself.

(2) A notional amount is a number of currency units, shares, bushels, pounds, or other units specified in the derivative instrument. The interaction of the notional amount and the reference rate determines the settlement of a derivative instrument.

c. Net Settlement. The derivative terms require or permit net settlement, which can readily be settled net by a means outside of the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

A derivative contract contains a “net settlement” provision if the contract terms meet one of the following criteria:

a. The terms require neither party to deliver an asset associated with the reference rate that has a principal amount, stated amount, face value, number of shares, or other denomination that is equal to the notional amount. For example, most interest rate swaps do not require that either party deliver cash or interest-bearing assets with a principal amount equal to the notional amount of the contract.

b. The terms require one of the parties to deliver an asset that has a principal amount, stated amount, face value, number of shares, or other denomination that is equal to the notional amount, but also provide a method for net settlement. For example, the terms provide for an exchange that offers an opportunity to sell the contract or to enter into an offsetting contract.

c. The terms require one of the parties to deliver an asset that has a principal amount, stated amount, face value, number of shares, or other denomination that is equal to the notional amount, but that asset is convertible to cash or is itself a derivative instrument. An example of that type of contract is a forward contract that requires delivery of an exchange-traded equity security. Even though the number of shares delivered is the same as the notional amount of the contract and the price of the shares is the reference rate, an exchange-traded security is readily convertible to cash.

Some construction or purchase contracts include nonperformance penalty provisions. A penalty payment for nonperformance, either fixed or variable, that is dependent on the failure of the counterparty to comply with a contract term does not meet the net settlement characteristic.

Fully benefit-responsive synthetic guaranteed investment contract, or SGIC: A modified guaranteed investment contract (GIC) in which the underlying assets of the synthetic contract are owned by the plan itself rather than the insurance company, as is the case with the GIC. This ownership right is of particular importance if the long-term financial soundness of an insurance company is doubtful. The synthetic plan segregates the plan's assets from the assets of the insurance company.

Click here for other **definitions**.

POLICY

101. Agency management must ensure the proper accounting and reporting of derivative instruments. Derivative instruments include, but are not limited to:

a. Futures contracts
b. Forward contracts that contain net settlement provisions
c. Option contracts

d. Interest rate and currency swaps
e. Other financial instruments with similar characteristics

102. Agencies must account for derivative instruments as either investments or hedges.

103. Report investment derivative instruments as part of the investments account and report hedging derivative instruments as both an asset and deferred inflow of resources or as a liability and deferred outflow of resources. The deferred inflow and deferred outflow accounts are considered neither assets nor liabilities but should be reported on the face of the statement of net position.

104. Report derivative instruments at fair value with the exception of fully benefit-responsive synthetic guaranteed investment contracts, or SGICs. For an SGIC, report the combination of the underlying investments and the wrap contract at contract value.

105. Report the changes in the fair value of investment derivative instruments, including hedging derivative instruments the agency determines are ineffective, in the operating statement.

106. Report the changes in the fair values of hedging derivative instruments as either deferred inflows of resources or deferred outflows of resources in the statement of net position.

107. Determine fair value using the market price if an active market exists. If a market price is not available, agencies may use a forecast of discounted expected cash flows. Formula-based methods and mathematical methods are also acceptable, such as matrix pricing, zero-coupon method, and the par-value method. Agencies may base the fair value of options on option-pricing models. Fair values determined by pricing services are acceptable if the services use the methods described above.

108. Agencies use investment derivative instruments primarily for obtaining income or profit.

109. Agencies use hedging derivative instruments to reduce the risk of adverse changes in cash flows and fair values of assets, liabilities, and expected transactions, e.g., to counter increases in interest costs, to offset commodity price increases, or to protect against losses in fair value.

110. A hedging derivative instrument must meet both of the following criteria:

a. The derivative instrument “associates” with a hedgeable item. This means:

- The notional amount of the derivative instrument is consistent with the principal amount or quantity of the hedgeable item,

- The derivative instrument is in the same fund as the hedgeable item, and

- The term or time period of the derivative instrument is consistent with the term or time period of the hedgeable item.

b. The hedge is effective, meaning it significantly reduces financial risk. Agencies establish *effectiveness* by showing that the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. Hedgeable items can be all or a specific portion of:

- A single asset or liability, for example, an entire bond issue or a specific portion of a bond issue

- Groups of similar assets or liabilities
- An expected transaction

111. Assets and liabilities measured at fair value do not qualify as hedgeable items.

112. To evaluate potential hedging derivative instruments for effectiveness, use one of these methods:

 a. The consistent critical terms method (qualitative)
 b. The synthetic instrument method (quantitative)
 c. The dollar-offset method (quantitative)
 d. The regression analysis method (quantitative)
 e. Other quantitative methods that meet GASB criteria (quantitative)

113. Risks that an agency may hedge include interest rate, tax, credit, and foreign currency risks. If the hedged risk is interest rate risk, the agency must use an appropriate benchmark interest rate for the evaluation of effectiveness. For tax-exempt debt, the appropriate benchmark interest rates include the SIFMA swap index and the AAA general obligations index. If an agency uses a swap that employs LIBOR or a percentage of LIBOR to hedge tax-exempt debt, evaluate hedge effectiveness using one of the quantitative methods listed above.

114. When a derivative instrument no longer meets the criteria of a hedging derivative instrument, account for it as an investments derivative instrument. Hedge accounting should cease to be applied upon the occurrence of one of the following termination events:

 a. The hedging derivative instrument is no longer effective as determined by applying the criteria in paragraphs 26–62 of GASB Statement 53 - *Accounting and Financial Reporting for Derivative Instruments*.

 b. The likelihood that a hedged expected transaction will occur is no longer probable.

 c. The hedged asset or liability, such as a hedged bond, is sold or retired but not reported as a current refunding or advanced refunding resulting in a defeasance of debt.

 d. The hedging derivative instrument is terminated unless an effective hedging relationship continues (described in 115 below)

 e. A current refunding or advanced refunding resulting in the defeasance of the hedged debt is executed.

 f. The hedged expected transaction occurs, such as the purchase of an energy commodity or the sale of bonds.

115. An effective hedging relationship continues when all of the following criteria are met, despite the termination of the hedging derivative, noted in 114(d) above:

 a. Collectability of swap payments is considered probable.

 b. The swap counterparty of the interest rate swap or commodity swap, or the swap counterparty's credit support provider, is replaced with an assignment or in-substance assignment (defined at 116 and 117).

c. The government enters into the assignment or in-substance assignment in response to the swap counterparty, or the swap counterparty's credit support provider, either committing or experiencing an act of default or a termination event as both are described in the swap agreement.

116. An *assignment* occurs when a swap agreement is amended to replace an original swap counterparty, or the swap counterparty's credit support provider, but all of the other terms of the swap agreement remain unchanged.

117. An *in-substance assignment* occurs when all of the following criteria are met*:*

a. The original swap counterparty, or the swap counterparty's credit support provider, is replaced;

b. The original swap agreement is ended, and the replaced swap agreement is entered into on the same date; and

c. The terms of that affect changes in fair values and cash flows in the original and replacement swap agreements are identical.

PROCEDURES

Evaluation of Effectiveness of Hedging Instrument

118. *Evaluation of effectiveness in the first reporting period.* If the agency first evaluates a potential hedging derivative instrument using the consistent critical terms method, and the instrument does not meet the criteria, apply at least one quantitative method before concluding that the potential hedging derivative instrument is ineffective. If the agency first evaluates a potential hedging derivative instrument using a quantitative method and the instrument does not meet the criteria, an agency may apply another quantitative method(s) before concluding the derivative is ineffective. If the agency determines that a potential hedging derivative is ineffective in the first reporting period, do not evaluate for effectiveness in subsequent reporting periods.

119. *Evaluation of effectiveness in subsequent reporting periods.* Re-evaluate all hedging derivative instruments at the end of the current reporting period. Use the method applied in the prior reporting period. If the agency applies that method and the hedging derivative instrument no longer meets the criteria for effectiveness, the agency may apply another method(s) before concluding that the hedging derivative instrument is no longer effective.

Accounting for Derivative Instruments as Hedges

120. If, after following the guidance for evaluating effectiveness, agencies find a derivative instrument to be effective in reducing a financial risk, report and disclose that derivative in accordance with hedge accounting.

121. Under hedge accounting, agencies report the change in fair value of a hedging derivative instrument in the statement of net position as deferred inflows of resources (accumulated increases in fair value) or deferred outflows of resources (accumulated decreases in fair value) rather than as investment income or loss in the operating statement. Add each year's change in fair value to the deferral in the statement of net position. If the hedging derivative instrument remains effective and continues until its planned conclusion, the deferrals will balance out the fair value of the derivative until that value declines to zero when it concludes.

122. If a hedging derivative instrument ceases to be effective during its term or terminates early, agencies remove the deferred amounts from the statement of net position. Agencies then report the investment income or loss, plus or minus the changes in fair value for that year, in the operating statement. However, if a hedging derivative instrument hedges a liability such as a current or advanced refunding, then include the deferral amounts in the amortization associated with the refunding.

123. In the initial year, if an agency determines a derivative instrument is an effective hedge, consider the hedging derivative instrument effective for the current and previous reporting periods. On the other hand, if an agency determines that a derivative instrument is no longer effective at the end of the initial year, then evaluate the derivative instrument as of the end of the previous reporting period.

124. Use the entries below to report the fair value of an effective hedging derivative instrument in the statement of net position.

T-code 474/475: To record the fair value of a derivative instrument at the end of the initial year if the fair value is positive.

T-code 474		
DR 0998 Derivative Instrument-Asset	$100	
CR 2951 System Clearing GL Level Only		$100

T-code 475		
DR 2951 System Clearing GL Level Only	$100	
CR 1850 Deferred Inflows-Hedging Derivatives		$100

T-code 474/475: To record the fair value of the derivative instrument at the end of the initial year if the fair value is negative.

T-code 474		
DR 0999 Deferred Outflows-Hedging Derivative	$100	
CR 2951 System Clearing GL Level Only		$100

T-code 475		
DR 2951 System Clearing GL Level Only	$100	
CR 1785 Derivative Instrument-Liability		$100

These entries record the fair value of the hedging derivative instrument as offsetting assets and liabilities. Record similar entries in subsequent years provided the hedging derivative instrument is still effective.

125. If, at the end of a following year, an agency finds that a previously effective hedging derivative instrument is no longer effective, reverse the accumulated deferral amounts and immediately recognize the accumulated change in fair value in the operating statement.

T-code 487: To record the fair value of a previously effective hedge in the operating statement if the fair value balance is positive, using comptroller object 0830 – Net Increase (Decrease) in Fair Value of Investments.

DR 0245 Investment Valuation Account	$500	
CR 3200 GAAP Revenue Offset (C/O 0830)		$500

T-code 487R: To record the fair value of a previously effective hedge in the operating statement if the fair value balance is negative, using comptroller object 0830.

DR 3200 GAAP Revenue Offset (C/O 0830)	$500	
CR 0245 Investment Valuation Account		$500

T-code 487: To record the current year's change in fair value in the operating statement if positive, using comptroller object 0830:

DR 0245 Investment Valuation Account	$200	
CR 3200 GAAP Revenue Offset (C/O 0830)		$200

T-code 487R: To record the current year's change in fair value in the operating statement if negative, using comptroller object 0830:

DR 3200 GAAP Revenue Offset (C/O 0830)	$200	
CR 0245 Investment Valuation Account		$200

126. If, however, the hedging derivative instrument remains effective until the termination date, remove the previously deferred accumulated amounts from the accounting records with T-code 474R and T-code 475R:

T-code 475R/474R: To remove the asset and previously deferred inflows.

<u>T-code 475R</u>		
DR 1850 Deferred Inflows-Hedging Derivatives	$2,000	
CR 2951 System Clearing GL Level Only		$2,000
<u>T-code 474R</u>		
DR 2951 System Clearing GL Level Only	$2,000	
CR 0998 Derivative Instrument-Asset		$2,000

T-code 475R/474R: To remove the liability and previously deferred outflows.

<u>T-code 475R</u>		
DR 1785 Derivative Instrument-Liability	$2,000	
CR 2951 System Clearing GL Level Only		$2,000
<u>T-code 474R</u>		
DR 2951 System Clearing GL Level Only	$2,000	
CR 0999 Deferred Outflows-Hedging Derivatives		$2,000

Accounting for Derivative Instruments as Investments

127. Account for investment derivatives, which also include previously effective hedging derivatives that are no longer effective, similarly to other investments. Report changes in fair value for the current year in the operating statement.

T-code 487: To record a positive change in fair value using comptroller object 0830.

DR 0245 Investment Valuation Account	$100	
CR 3200 GAAP Revenue Offset (C/O 0830)		$100

T-code 487R: To record a negative change in fair value using comptroller object 0830.

DR 3200 GAAP Revenue Offset (C/O 0830)	$100	
CR 0245 Investment Valuation Account		$100

Hedging Derivative Instruments Disclosure Requirements

128. Report the following disclosures for hedging derivative instruments:

a. The objectives for entering into the derivative, the context needed to understand those objectives, the strategies for achieving those objectives, and the types of derivative instruments used.

b. Significant terms of the transaction, including:

- Notional amount;
- Reference rates, such as indexes or interest rates;
- Embedded options, such as caps, floors, or collars;
- The date when the agency entered into the derivative instrument and when it will terminate or mature;
- The amount of cash paid or received, if any, when an agency initiates a forward contract or swap.

c. Exposure to the following risks:

- *Credit risk* is the risk that another party to a transaction will not fulfill its obligations. Disclosures for credit risk include:

1. The credit quality ratings of counterparties as described by nationally recognized rating agencies as of the end of the reporting period. If the counterparty has no rating, indicate this fact.

2. The maximum amount of loss due to credit risk, based on the fair value of the hedging derivative instrument as of the end of the reporting period. The agency would incur this loss if the counterparties to the hedging derivative instrument failed to perform according to the terms of the contract (without respect to any collateral or other security, or netting arrangement).

3. The policy of requiring collateral or other security to support hedging derivative instruments subject to credit risk; a summary description and the aggregate amount of the collateral or other security that reduces credit risk exposure; and information about access to that collateral or other security.

4. The policy of entering into master netting arrangements, including a summary description and the aggregate amount of liabilities included in those arrangements. Master netting arrangements occur when (a) each party owes the other determinable amounts, (b) the government has the right to set off the amount owed with the amount owed by the counterparty, and (c) the right of setoff is legally enforceable.

5. The aggregate fair value of hedging derivative instruments in asset (positive) positions, net of collateral posted by the counterparty, and the effect of master netting arrangements.

6. Significant concentrations of net exposure to credit risk with individual counterparties or groups of counterparties. Group concentrations of credit risk exist if a number of counterparties engage in similar activities and have similar economic characteristics that would cause changes in economic or other conditions that would similarly affect their ability to meet contractual obligations.

7. Credit risk disclosures do not extend to derivatives that are exchange-traded, such as futures contracts. For those derivatives, evaluate the amounts held by broker-dealers by applying the custodial credit risk disclosures in **OAM 15.15.00**.

- *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or a government's cash flows. Disclosures for interest rate risk include the increased exposure itself and the hedging derivative instrument's terms that increase this risk.

- *Basis risk* is the risk that arises when variable interest rates on a derivative and an associated bond or other interest paying financial instrument have different indexes. Disclosures for basis risk include the basis risk itself, the hedging derivative instrument's terms, and the payment terms of the hedged item that creates the basis risk.

- *Termination risk* is the risk that a derivative's unscheduled end will affect a government's asset/liability strategy or will present the government with significant unscheduled termination payments to the counterparty. Disclosures for termination risk include the termination risk itself, any termination events that have occurred, dates that the hedging derivative instrument might terminate, and any out-of-the-ordinary termination events contained in contractual documents.

- *Rollover risk* is the risk that a derivative instrument associated with a government's debt does not extend to the maturity of that debt. When the derivative terminates, the associated debt will no longer have the benefit of the derivative. Disclosures for rollover risk include the maturity of the hedging derivative instrument and the maturity of the hedged item.

- *Market-access risk* is the risk that a government will not be able to enter credit markets or that credit will become more costly. Disclose any exposure to market-access risk.

- *Foreign currency risk* – if the hedging derivative exposes the government to foreign currency risk, disclose the U.S. dollar balance of the hedging derivative instrument, organized by currency and by type of derivative.

d. If the hedged item is a debt obligation, disclose the hedging derivative instrument's net cash flows based on the requirements of **OAM 15.15.00.**

Example of hedging derivative instruments disclosures:

Fiscal Year Ending June 30,	Principal	Interest	Hedging Derivatives, Net	Total
20X1	$6,000	$7,786	$(1,253)	$12,533
20X2	10,000	7,525	(1,211)	16,314
20X3	27,000	7,090	(1,141)	32,949
20X4	33,000	5,916	(952)	37,964
20X5	15,000	4,480	(721)	18,759
20X6-20Y0	29,000	19,140	(3,080)	45,060
20Y1-20Y5	15,000	12,385	1,475	28,860
20Y6-20Z0	14,000	9,570	(528)	23,042
20Z1-20Z3	30,000	6,310	(300)	36,010
Total	$179,000	$80,202	$(7,711)	$251,491

Investment Derivative Instruments Disclosure Requirements

129. Disclose the following for investment derivative instruments:

a. *Credit risk.* If the investment derivative instrument has an exposure to credit risk, disclose that risk consistent with the requirements for credit risk as outlined above.

b. *Interest rate risk.* If the investment derivative instrument has an exposure to interest rate risk, disclose that risk consistent with the requirements of **OAM 15.15.00**. Furthermore, an investment derivative instrument that is an interest rate swap is an additional example of an investment that has a fair value that is highly sensitive to interest rate changes, which requires disclosure of the fair value, notional amount, reference rate, and embedded options, as applicable.

c. *Foreign currency risk.* If the investment derivative instrument has an exposure to foreign currency risk, disclose that risk consistent with the requirements of **OAM 15.15.00**.

Summary Disclosure Requirements

130. Statewide Accounting and Reporting Services (SARS) discloses derivative information at the statewide level in Oregon's Comprehensive Annual Financial Report (CAFR). Agencies that issue separate audited financial statements report their derivatives at the agency level. In either case, the disclosure process includes the following steps:

a. Divide each category between (1) *hedging* derivative instruments and (2) *investment* derivative instruments, distinguishing between fair value hedges and cash flow hedges.

b. Within each subcategory, aggregate the derivative instruments by type (receive-fixed swaps, pay-fixed swaps, swaptions, rate caps, basis swaps, or futures contracts).

131. Include the following information in the disclosures, using a columnar display, narrative form, or a combination of both.

a. Notional amounts

b. Changes in fair value during the reporting period and the classification in the financial statements where those changes in fair value appear.

c. Fair values as of the end of the reporting period and the classification in the financial statements where those fair values appear. If fair value determinations are contingent upon quoted market prices, then disclose the method and significant assumptions used to estimate the fair values.

d. If an agency relies on a pricing service to determine the fair values, the agency is not required to disclose the significant assumptions if the pricing service considers them proprietary. However, the agency should make a reasonable effort to obtain that information. If the pricing service refuses, then disclose that fact.

e. Fair values of derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument. An agency must also disclose the deferral amount reported within the investment revenue upon reclassification.

Other Disclosures

132. If applicable, also disclose the following:

a. Any contingent features, such as an obligation to post collateral if the credit quality of the hedgeable item declines. Contingent feature disclosures include:

- The existence and nature of contingent features and the circumstances that could trigger those features.
- The aggregate fair value of derivative instruments that contain those features.
- The aggregate fair value of assets required for posting as collateral or transferred in accordance with the provisions related to the triggering of the contingent liabilities.
- The amount posted as collateral by the government as of the end of the reporting period.

b. For SGICs that are fully benefit-responsive, include a description of the nature of the SGIC, and the SGIC’s fair value (including separate disclosure of the fair value of the wrap contract and the fair value of the corresponding underlying investments).

133. The Office of the State Treasurer determines the fair value of derivative instruments at year-end for those agencies that hold designated investments.

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	Number:	15.30.00
Division:	Chief Financial Office	Effective date:	July 1, 2012
Chapter:	**Accounting and Financial Reporting**		
Part:	**Securities Lending**		
Section:			
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for securities lending.

AUTHORITY:
ORS 291.040
ORS 293.590
ORS 293.736
GASB Statement No. 3
GASB Statement No. 9
GASB Statement No. 28
GASB Statement No. 34
GASB Statement No. 40

APPLICABILITY: This policy applies to all state agencies included in the state's financial statements, except those agencies specifically exempted by OAM policy 01.05.00.

DEFINITION: Securities lending involves loaning securities from the Office of the State Treasurer (Treasury) in exchange for collateral. Treasury agrees to return the collateral for the same securities in the future. Treasury receives **lender fees** when *securities* are the collateral and Treasury (as the **lender**) pays **borrower rebates** for the use of *cash* collateral. **Securities lending agents** handle the transactions and receive **agent fees** in return.

POLICY:

101. Agency management is responsible for ensuring the proper accounting and reporting of securities lending.

102. This policy establishes the reporting requirements for **securities lending transactions** according to **generally accepted accounting principles (GAAP).**

103. GAAP require reporting the costs of securities lending such as rebates and agent fees, as expenditures/expenses (services and supplies). GAAP do not allow the netting of these costs with securities lending income.

104. The securities lent (the **underlying securities**) will still appear as assets on the balance sheet.

105. The *cash* received as collateral and investments made with that cash will appear as assets, with the invested cash reported per Treasury statements. The obligation to return the cash will show as a liability.

106. *Securities* received as collateral will show as assets if the state can pledge or sell them without borrower default. In this case, also report a liability to return the securities.

107. Revenues and costs of securities lending are subject to budgetary rules on a net basis.

108. Treasury provides reports to SARS and agencies that show which agencies with *designated investments* had securities lending income during the year. Agencies will post entries before the close of month 13 for their securities lending costs, and increase interest revenue by the same amount, in each GAAP fund. The amount of each of these entries is the total of "fees paid to agent" and "borrower rebates".

109. Based on interest earnings posted to R*Stars, SARS will allocate the *Oregon Short-term Fund (OSTF)* securities lending revenues and expenses. SARS will notify each agency that prepares audited statements of that agency's GAAP fund(s) pro rata share. For all other GAAP funds, SARS will make entries at a statewide level to record costs and increase revenue.

110. Treasury provides reports to SARS and agencies that show which agencies with *designated investments* had securities lending balances at year-end. Designated investments will continue to show as investments on the balance sheet even though some designated investments are out on loan. Agencies will report the cash collateral received on securities lending for *designated investments* as an asset and a liability.

111. SARS will report investments of the *OSTF*, including any securities on loan, as cash in the balance sheet because the OSTF functions as a demand deposit account. This cash will remain on the balance sheet even though some securities within the OSTF are out on loan.

112. At year-end, SARS will tabulate the R*Stars cash balances for each GAAP Fund. SARS will assign to each GAAP fund a pro rata share of the cash received as collateral *in the OSTF* and investments made with that cash. SARS will notify each agency required to prepare audited statements of their pro rata share of the assets. Those agencies will post entries for the cash collateral received and liabilities for cash collateral.

<u>PROCEDURES:</u>

Recording Revenues and Expenditures/Expenses

113. Use the following T-Codes to record the revenue and expenditure/expense entries for both designated investments and the OSTF:

1) **TC 908R:** Adjusts revenue for securities lending to the gross amount:

DR 1551 Deposit Liability	1,000	
CR 3200 GAAP Revenue Offset		1,000

2) **TC 909R:** Adjusts expenditures/expenses for securities lending to the gross amount

DR 3600 GAAP Expenditure Offset	1,000	
CR 1551 Deposit Liability		1,000

Recording Assets and Liabilities

114. Use the following T-Codes to record the balance sheet entries for both designated investments and the OSTF:

1) **TC 928:** Posts an equal entry in R*Stars for the cash collateral received.

DR 0350 Securities Lending Collateral	500	
CR 1600 Obligations Under Securities Lending		500

Financial Statement Reporting

115. Balance Sheet: SARS will present the securities lending assets as Securities Lending Collateral. SARS will present the securities lending liabilities as Obligations Under Securities Lending on the balance sheet.

116. Operating Statement: SARS will present securities lending revenue as part of investment income in the operating statement and securities lending costs as services and supplies.

117. Statement of Cash Flows: SARS will separately display securities lending revenue and expense in the statement of cash flows under “cash flows from investing activities”. The titles will be “investment income from securities lending” and “investment expense from securities lending.”

Disclosure Requirements

118. SARS will request the following information from Treasury and will disclose it in the notes to the CAFR:

a. The source of legal approval for securities lending and any major breach of those provisions.

b. A general description of securities lending.

c. The carrying amount and fair value of the original securities.

d. Whether the maturities of the investments made with cash collateral generally match the maturities of the securities lent and the extent of such matching.

e. The amount of any losses on securities lending from the default of a borrower and amounts recovered from prior period losses.

f. The carrying amounts and fair values of securities lending collateral and original securities.

119. Treasury will provide information on *designated investments* to the agencies about securities on loan and investments purchased with cash collateral.

120. SARS will notify each agency required to prepare audited statements of the agency’s share of securities lending *for the OSTF*.

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Reporting	**Number:**	15.35.00
Division:	Chief Financial Office	**Effective date**:	January 31, 2013
Chapter:	Accounting and Financial Reporting		
Part:	Revenues and Receivables		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for exchange transactions and for nonexchange transactions involving financial or capital assets. It does not apply to interfund transactions or interagency transactions.

AUTHORITY:

ORS 293.590
GASB Codification Section 1600
GASB Codification Section 2200
GASB Statement No. 24
GASB Statement No. 33
GASB Statement No. 34
GASB Statement No. 38
GASB Statement No. 42
GASB Statement No. 48
GASB Statement No. 54

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS:

Exchange transactions are transactions in which each party to the transaction gives up or receives essentially equal value. For example, a purchase or sale of goods or services is an exchange transaction. One participant exchanges cash for goods or services of an equal value.

An exchange-like transaction is one in which the values exchanged, though related, may not be equal and in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange transaction for accounting recognition. The difference between an exchange transaction and an exchange-like transaction is a matter of degree.

Nonexchange transactions are transactions in which one party gives value or benefit to another party without directly receiving equal value in exchange or, conversely, receives value or benefit from another party without directly giving equal value in exchange. Nonexchange transactions fall into four classes:

a. Derived tax revenues. Derived tax revenues result when a governmental entity imposes a tax on an exchange transaction. Personal and corporate income taxes, motor fuels taxes, and other assessments based on earnings or consumption are all derived tax revenues.

b. Imposed nonexchange transactions. Imposed nonexchange transactions result when a governmental entity imposes an assessment on a nongovernmental entity and bases the assessment on something other than an exchange transaction. Inheritance taxes, fines, and penalties are examples of imposed nonexchange transactions.

c. Government-mandated nonexchange transactions. Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level. The provider government stipulates that the receiving government use the resources provided for a specific mandated program. Fulfillment of eligibility requirements is generally also required. A federal grant for a federally mandated program is an example of a nonexchange transaction.

d. Voluntary nonexchange transactions. Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. The provider frequently establishes purpose restrictions and eligibility requirements. Certain grants and entitlements, as well as most donations, fall into this category.

Click here for other **definitions**.

POLICY:

101. Agency management must ensure the proper accounting and reporting of revenues and receivables.

102. Agencies must account for revenues in accordance with **generally accepted accounting principles** (GAAP). Agencies are responsible for analyzing the nature of their transactions and using the applicable guidance provided in this policy

103. Agencies must report revenues net of estimated uncollectible amounts. Accordingly, agencies record receivables at the gross amount and offset the receivables with the amount of estimated uncollectibles in Allowance for Uncollectible Accounts. Use of an allowance account is required for tracking and reporting purposes.

PROCEDURES:

Recognizing Revenue – Exchange Transactions

104. Recognize revenue in governmental funds using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues must be "susceptible to accrual" in order to be accrued. Revenue that is both measurable and available to finance current period expenditures is “susceptible to accrual”. Revenue that is legally usable to finance current period expenditures and that the agency collects in the current period or soon enough thereafter to pay liabilities of the current period is “available”. For the State, this availability period is 90 days after the fiscal year end. A revenue is "measurable" if: (1) the precise amount is known because the transaction is completed; or (2) the amount can be determined and/or

reasonably estimated from other available information. Revenues generally recognized when susceptible to accrual include:

a. Charges for sales and services received by the user

b. Interest earnings

c. Significant revenues not received at the normal time of receipt

105. Recognize certain revenues in governmental fund types only when received in cash. Revenues where the amount is not measurable until received in cash are:

a. Licenses and fees

b. Principal portion of loan repayments

c. Cash sales of goods and services

106. Recognize revenue in proprietary funds and fiduciary funds using the accrual basis of accounting. Under the accrual basis of accounting, agencies recognize revenue in the period in which they earn it and it becomes measurable.

107. The receivable associated with revenue that is “measurable and available” as described in 102 is a current receivable of the governmental fund, while the remainder is a long-term receivable of the governmental fund. However, for government-wide financial statement reporting purposes, the current portion of certain receivables (taxes, for example) is that portion expected to be collected within one year of the balance sheet date. For this reason, an agency may need additional entries in the government-wide reporting fund to reflect these receivables properly.

Recognizing Revenue – Nonexchange Transactions

108. Recognize nonexchange transactions based on the class and characteristics of the transaction. It is necessary to analyze the substance of the transaction to determine the applicable class of nonexchange transaction. Recognize nonexchange transactions in the financial statements unless they are not measurable or collection is not probable.

109. In addition to specific recognition criteria for each type of nonexchange transaction, recognize revenues and expenditures of nonexchange transactions in governmental funds using the modified accrual basis of accounting and in proprietary funds and fiduciary funds using the accrual basis of accounting.

110. Since recognition of nonexchange revenue in governmental funds is not until it is available, it is possible that recognition of the related asset (cash or receivable) will be before the revenue. In this case, offset the asset with deferred revenue. Until satisfaction of all recognition requirements, providers report cash or other assets provided in advance as advances (assets) and recipients report deferred revenues (liabilities).

111. Derived tax revenues result when a governmental entity imposes a tax on an exchange transaction. Personal and corporate income taxes, motor fuels taxes, and other assessments based on earnings or consumption are all examples of derived tax revenues. Recognize derived tax transactions when the underlying exchange has occurred. Report revenues net of estimated uncollectible amounts and estimated refunds payable.

112. Imposed nonexchange transactions result when a governmental entity imposes an assessment on a nongovernmental entity and the bases the assessment on something other than an exchange transaction. Inheritance taxes, fines, and penalties are examples of imposed nonexchange transactions. Recognize imposed nonexchange transactions as soon as there is an enforceable legal claim to the resources. There is generally an enforceable legal claim when the agency has legislative authority to impose and collect the tax or fine. Report imposed nonexchange revenues net of estimated uncollectible amounts.

113. Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level. The provider government requires that the receiving government use the resources provided for a specific mandated program. Fulfillment of eligibility requirements is generally also required. A federal grant for a federally mandated program is included in this class of nonexchange transactions.

114. Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. The provider frequently establishes purpose restrictions and eligibility requirements. Certain grants and entitlements as well as most donations fall into this category.

115. Recognize both government-mandated and voluntary nonexchange transactions only upon fulfillment of all eligibility requirements.

Eligibility Requirements

116. Eligibility requirements are conditions established by the provider that recipients must meet before the provider will make funds available. Recognize government-mandated and voluntary nonexchange transactions only when all eligibility requirements are satisfied. Requirements may consist of one or more of the following

- *Required characteristics of recipients*. The provider targets resources to a specific group. Government-mandated nonexchange transactions usually have this type of eligibility requirement (for example, a federal program that specifies recipients must be states and they must pass a portion of the funds on to secondary recipients who must be school districts).

- *Time requirements*. The provider specifies that the recipient must use the resources for a particular period or may not use them until a particular period.

- *Reimbursements*. The provider offers resources on a reimbursement basis; recipients cannot qualify for resources without first incurring allowable costs under the program.

- *Contingencies.* These apply to voluntary nonexchange transactions only. The provision of resources is contingent on a specific action of the recipient (for example, to raise an equal amount of money or contribute matching funds).

117. Do not consider routine administrative tasks such as filing claims for reimbursements and filing progress reports as eligibility requirements. Do not delay recognition of nonexchange transactions for these types of tasks.

Time Requirements

118. When a government is the resource provider for a government-mandated or voluntary nonexchange transaction, and there is no explicit time requirement, the applicable period is the immediate provider's fiscal year.

For example: A government with a September 30 fiscal year end provides resources to a government with a June 30 fiscal year end. The recipient government recognizes a receivable on October 1, the beginning of the provider's fiscal year.

119. When resources are provided before the time (or other eligibility) requirements have been met, the provider records the disbursement as an asset (advance to recipients), and the recipient records the receipt as deferred revenue.

Time Requirement Exceptions – Endowments and Donations of Works of Art

120. Endowment-related resources are resources the provider gives with the stipulation (time requirement) that the recipient may not sell, use, or disburse them until after a specified number of years or the occurrence of a certain event. The recipient reports these resources as assets and revenues when received, provided the recipient has met all other eligibility requirements.

121. For *capitalized* collections, recognize donations of works of art, historical treasures, and similar assets as assets and revenues (donations and grants) when received, provided all eligibility requirements other than time requirements have been met.

122. For *noncapitalized* collections, recognize donations of works of art, historical treasures, and similar assets as revenue, along with an equal amount of program expense.

Purpose Restrictions

123. Purpose restrictions specify how recipients must use the resources. They do not affect the timing of recognition of nonexchange transactions. When purpose restrictions apply to the use of nonexchange revenues, until the recipient actually uses the funds for their intended purpose, the recipient reflects them as a restriction of fund balance (governmental funds) or net position (proprietary funds).

Subsequent Inability to Meet Eligibility Requirements or Purpose Restrictions

124. It may become apparent after recognition of a nonexchange transaction that the provider will not grant resources as originally anticipated, or that the recipient will have to return resources to the provider. This could be because eligibility requirements related to government-mandated or voluntary nonexchange transactions are no longer being satisfied, or because the recipient will not satisfy the purpose restrictions within the time period specified. When it is probable that either resources will not be provided, or resources will have to be returned:

    a. The provider government must recognize as revenue the amount of the resources they will not provide but that they have already recognized as expenses/expenditures or the amount of resources already provided that they expect to be returned.

    b. The recipient government must recognize as an expense/expenditure the amount of resources that have been provided that must be returned or the amount of resources promised (and already recognized as revenue) that will not be provided.

Food Stamps

125. Recognize food stamp expenditures when the benefits (cash or food stamps) are distributed. In an electronic benefit transfer (EBT) system, distribution takes place when the individual recipients use the benefits.
126. Recognize food stamp revenue at the same time as the expenditures.

Deferred Revenue – Exchange and Nonexchange Revenues

127. In governmental funds, deferred revenue is revenue that is "measurable but not available." Agencies should defer revenue in governmental funds when they receive the revenue in advance and there is a legal restriction on its use for current period expenditures. When agencies receive revenue in advance and there are no restrictions on its use, agencies should record the revenue when they receive the cash.

128. In proprietary funds, deferred revenue is revenue that is measurable but not earned. Agencies should defer revenue when they receive it in advance of a completed earnings process. Generally, the earnings process is complete upon either the delivery of goods or services or the compliance with laws or regulations associated with the revenue.

129. For example, defer revenue

    a. When receipt of government-mandated or voluntary nonexchange revenues is before satisfaction of all eligibility requirements.

    TC 164: To record deferred revenues.

DR 0065 Unreconciled Deposit	1,000	
DR 3200 GAAP Revenue Offset (C/O XXXX)	1,000	
CR 1603 Deferred Revenue - Non Doc Supported		1,000
CR 3100 Revenue Control-Cash (C/O XXXX)		1,000

    b. When accrued revenue associated with receivables in governmental funds is not available at fiscal year end. For financial reporting purposes, Statewide Accounting and Reporting Services (SARS) reclassifies a portion of the balance in Nonspendable Fund Balance for Long-term Receivables to deferred revenue during financial statement compilation.

Recognizing Revenue in the Hands of an Agent

130. Unless considered deferred revenue, record money collected by an agent when received in cash by the agent. For nonexchange revenues, base recognition on the criteria appropriate to that class of revenue: either derived tax or imposed nonexchange revenue. At June 30 of each fiscal year, accrue amounts that are measurable and available (governmental funds) or earned but not collected (proprietary funds).

131. Fishing and hunting licenses and boat licenses are examples of cash receipts collected by agents external to the State. The agency receiving the monies from the agent accrues as revenue for the fiscal year any cash receipts collected and in the hands of the agent at June 30. Accrue the amount received from the agent as of the filing date required in the agency's law, administrative rule, or contract.

TC 436: To establish a receivable and accrue revenue at year end (auto reverses).

DR 0503 Accounts Receivable-Other Unbilled	1,000	
CR 3105 Revenue Control-Financial Statement Accrual		1,000

Recording Taxes Receivable - pertains to Department of Revenue (DOR) only

132. Although income taxes withheld from employee wages by corporations and other entities are estimates of the actual personal income tax liability owed to the State, DOR recognizes the withholdings as revenue, net of estimated refunds, in the accounting period in which it becomes measurable and available. Accordingly, each fiscal year end, DOR makes an accrual to recognize revenue for all payroll and personal income taxes assessed as of June 30 that they expect to receive on or before September 30 of the same year. DOR reduces the accrual by estimated uncollectible amounts and estimated refunds payable as of June 30. Following are examples of recording short-term and long-term taxes receivable in a governmental fund.

TC 436: To accrue personal income tax revenue (auto-reverses).

DR 0410 Taxes Receivable-Current	1,000	
CR 3105 Revenue Control-Financial Stmt Accrual (C/O 0111)		1,000

TC 436R: To record estimated uncollectible taxes as of June 30 (auto-reverses).

DR 3105 Revenue Control-Financial Stmt Accrual (C/O 0111)	200	
CR 0411 Allowance for Uncollectible Taxes-Current		200

TC 907: To record estimated refunds payable as of June 30 (auto-reverses).

DR 3105 Revenue Control-Financial Stmt Accrual (C/O 0111)	300	
CR 1215 Accounts Payable		300

TC 452: To accrue long-term taxes receivable.

DR 0420 Taxes Receivable-Noncurrent	10,000	
CR 3037 Nonspendable FB-Other NC Receivables		10,000

TC 452R: To record estimated uncollectible long-term taxes receivable

DR 3037 Nonspendable FB-Other NC Receivables	1,000	
CR 0937 Allowance for Uncollectible Taxes-Noncurrent		1,000

Revenue in Suspense Accounts

133. If an agency deposits money in a suspense account and determines the actual revenue source later, the agency must reclassify the suspense liability into specific revenue accounts as of the end of the fiscal year. This will ensure the state's financial statements report revenue appropriately.

Merchant Fees

134. Merchant fees are discount fees paid by agencies to financial institutions. Financial institutions charge merchant fees, which generally are a small percentage of each credit card transaction, when accepting credit card payments. Record merchant fees as an expense in comptroller object 4730 and record the related credit card revenue at the gross amount.

Collection Fees

135. Agencies should follow the guidelines provided in OAM chapter 35, Accounts Receivable Management, to determine when to refer accounts receivable to a collection agent. When an agency refers a **governmental fund** receivable to a collection agent, the agency should no longer consider the revenue available. Thus, agencies should reclassify the current accounts receivable to noncurrent and reduce revenue.

136. For example, 90 days after establishing a $1,000 accounts receivable in a governmental fund with transaction code 103, an agency refers the account to a collection agent. Accounting entries applicable in this scenario include:

TC 107R: To remove the current accounts receivable and reduce revenue.

DR 3101 Revenue Control-Accrued (C/O 0407 Other Chgs for Svcs)	1,000	
CR 0501 Accounts Receivable Other–Billed		1,000

TC 452: To establish long-term receivable (revenue is not available).

DR 0935 Other Receivables-Noncurrent	1,000	
CR 3037 Nonspendable FB-Other NC Receivables		1,000

137. Collection fees are amounts paid to collection agents for the cost of collecting accounts receivable. Agencies may hire either the Department of Revenue or a private collection firm to pursue collection of past due accounts receivable. Collection agents generally charge a percentage of each accounts receivable balance, although they may agree upon a specific dollar amount.

138. If the agency is absorbing the collection fees, the agency records an expense and records the related revenue at the gross amount. Agencies use specific comptroller objects to track the cost of collection agents: 4720 if collected by the Department of Revenue and 4725 if collected by a private collection agent.

139. For example: If an agency referred a $1,000 accounts receivable to a private collection firm that charged a 10 percent fee, the agency would record the following entries (assume a governmental fund and they reclassified the receivable per paragraphs 135 and 136).

TC 143: To record collection of an accounts receivable.

DR 0065 Unreconciled Deposit	1,000	
DR 3037 Nonspendable FB-Other NC Receivables	1,000	
CR 0935 Other Receivables-Noncurrent		1,000
CR 3100 Revenue Control-Cash (C/O 0407 Other Chgs for Svcs)		1,000

TC 222: To record payment of collection fee to private firm.

DR 3501 Expend Cntrl-Accrued (C/O 4725 Coll Fees-Prvt Agent)	100	
CR 1211 Vouchers Payable		100

140. If an agency referred a $1,000 accounts receivable to the Department of Revenue and paid a 10 percent fee, when the agency receives the $900 net payment from DOR, the agency would record the following entries to reflect the gross receivable and collection fee amounts (assume a **proprietary fund** and the receivable is still on the books).

TC 176: To record collection of an accounts receivable.

DR 0065 Unreconciled Deposit	1,000	
DR 3101 Rev Cntrl-Accrued (CO 0407 Other Chgs for Svcs)	1,000	
CR 0501 Accounts Receivable Other-Billed		1,000
CR 3100 Revenue Control-Cash (CO 0407 Other Chgs for Svcs)		1,000

TC 172R: To record payment of collection fee to Department of Revenue.

DR 3500 Expend Cntrl-Cash (CO 4720 Collection Fees - DOR)	100	
CR 0065 Unreconciled Deposit		100

141. If the agency is adding the collection cost to the debt when using a private collection firm and the collection firm remits only the amount of the original debt to the agency, do not record the collection fee.

142. If the agency is adding the collection cost to the debt when using a private collection firm, the debtor may mistakenly send the payment to the agency. In this case, the agency posts the entire amount to the receivable, increases the receivable by the amount of the collection fee to clear the negative balance, recognizes the entire amount as revenue, and then offsets the additional revenue when paying the collection firm.

143. For example: If an agency referred a $1,000 accounts receivable to a private collection firm that charged a 10 percent fee which is passed on to the debtor, and the debtor mistakenly sends the payment to the agency, the following entries would be recorded (assume a governmental fund and the receivable has been reclassified per paragraphs 133 and 134).

TC 143: To record collection of an accounts receivable.

DR 0065 Unreconciled Deposit	1,100	
DR 3037 Nonspendable FB-Other NC Receivables	1,100	
CR 0935 Other Receivables – Noncurrent		1,100
CR 3100 Revenue Control-Cash (CO 0407 Other Chgs for Svcs)		1,100

TC 452: To clear the negative receivable created above.

DR 0935 Other Receivables – Noncurrent	100	
CR 3037 Nonspendable FB-Other NC Receivables		100

TC 220: To record payment of collection fee to private firm.

DR 3101 Rev Cntrl-Accrued (CO 0407 Other Chgs for Svcs)	100	
CR 1211 Vouchers Payable		100

Uncollectible Revenues

144. Report revenues net of estimated uncollectible amounts. Record receivables at gross and record the estimated uncollectible accounts in both governmental and proprietary funds with the following separate entry to the applicable contra-account.

TC 127: To record estimated uncollectible revenue associated with current receivables in proprietary funds and governmental funds.

DR 3101 Revenue Control-Accrued	1,000	
CR 0502 Allowance for Uncollectible Accounts-Current		1,000

TC 462: To record estimated uncollectible revenue associated with noncurrent receivables in proprietary funds.

DR 3200 GAAP Revenue Offset	1,000	
CR 0934 Allowance for Uncollectible Accounts-Noncurrent		1,000

TC 452R: To record an estimated uncollectible for noncurrent receivables in governmental funds.

DR 3037 Nonspendable FB-Other NC Receivables	1,000	
CR 0934 Allowance for Uncollectible Accounts-Noncurrent		1,000

145. The following accounting entries may be used to write off receivables that cannot be collected in both governmental and proprietary funds.

TC 129/130: To write off an uncollectible current accounts receivable.

DR 0502 Allowance for Uncollectible Accounts-Current	1,000	
CR 0501 Accounts Receivable-Other Billed		1,000

TC 445: To write off an uncollectible noncurrent receivable.

DR 0934 Allowance for Uncollectible Accounts-Noncurrent	1,000	
CR 093X Noncurrent Receivable		1,000

Insurance Recoveries

146. Recognize insurance recoveries only when realized (received) or when realizable (a claim is pending for which the insurer has admitted or acknowledged coverage). Revenues are realized when products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash. Revenues are realizable when assets received or held are readily convertible to cash. Insurance recoveries realized or realizable are usually measurable and available.

147. With the exception of insurance recoveries realized or realizable in the same fiscal year as a capital impairment loss, record all insurance recoveries using comptroller object 7511, Insurance Recovery Subsequent to Loss. The GAAP level profiles (D08) established for comptroller object 7511 ensure that SARS reports insurance recoveries in accordance with GAAP, even though agencies treat insurance recoveries as a reduction of expense for budgetary purposes. The following entries are applicable to insurance recoveries other than those related to impairments of capital assets, such as for theft or embezzlement of cash or other monetary assets.

TC 172: To record receipt of insurance recovery in governmental, proprietary, or fiduciary funds.

DR 0065 Unreconciled Deposit	1,000	
CR 3500 Expenditure-Cash (C/O 7511)		1,000

TC 904 – To accrue estimated insurance recoveries realizable at fiscal year-end by recording a reduction of expense.

DR 0503 Accounts Receivable – Other Unbilled	3,000	
CR 3505 Expenditure – Financial Statement Accrual (C/O 7511)		3,000

Alternately, agencies may record receivables for realizable insurance recoveries using generic **TC 135** (billed) and then adjust them using **TC 136** (billed).

148. When an agency receives an insurance recovery other than one associated with a capital asset impairment in the same fiscal year as the loss, SARS uses information provided by agencies on year-end disclosure forms to report the loss net of the insurance recovery, in accordance with GAAP. SARS also uses information provided by agencies on year-end disclosure forms to assess whether to report an insurance recovery as an extraordinary item.

149. For accounting guidance regarding insurance recoveries related to capital asset impairments, refer to **OAM 15.60.25**.

Other Items

150. GAAP require separate display of certain items in the financial statements. In order to ensure that SARS reports these items properly, they have distinct comptroller objects. Record the following items using the comptroller objects indicated:

- Contributions to Permanent Funds 2400
- Extraordinary Items 2450
- Special Items 2500
- Capital Contributions 2550

Financial Statement Presentation

151. Governmental funds present revenues in the statement of revenues, expenditures, and changes in fund balances by major source. The statement presents other increases in financial resources such as transfers to or from other funds, long-term debt issued, and leases incurred in the “other financing sources (uses)” section of the financial statement.

152. The fiduciary funds statement of changes in fiduciary net position reports revenues as additions to net position.

153. The proprietary funds statement of revenues, expenses, and changes in fund net position segregates revenues into **operating revenues** and **nonoperating revenues**, classified by major source.

154. Operating revenues generally result from providing services and producing or delivering goods. Operating revenues include revenue from the sale of goods or services, revenue from internal service operating transactions, interest income from program loans collected as part of a governmental program (not intended to be investments), grants for specific activities that are operating activities of the grantor government, as well as revenue from taxes, fines, fees, and penalties. Operating revenues may include investment income only if investing activities are a primary function of the agency.

155. The proprietary fund statement of revenues, expenses, and changes in fund net position presents nonoperating revenues below operating income and includes items not directly associated with agency operations such as investment income and gain on the disposition of assets. The statement reports capital contributions, special items, extraordinary items, and transfers to and from other funds separately and in this order after the net total of nonoperating revenues and expenses.

156. The government-wide statement of activities recognizes revenues on the accrual basis of accounting and categorizes them as either **program revenues** or **general revenues**. The statement reports contributions to endowments and permanent funds as well as special items, extraordinary items, and transfers to and from other funds separately, and in that order, below general revenues. The statement reports net cumulative effect of a change in accounting principle as a restatement of beginning net position.

157. The government-wide statement of activities further categorizes program revenues into charges for services, operating grants and contributions, or capital grants and contributions. Charges for services are amounts received from parties who purchase, use, or directly benefit from a program. Contributions and grants include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Capital contributions and grants are contributions and grants that are restricted to capital acquisition or construction. All other contributions and grants are operating contributions and grants. Earnings on investments that are legally restricted for a specific program are also program revenues (operating contributions and grants). The statement of activities presents program revenues as a reduction to the cost of the program or function that generated the revenue. General revenues are all revenues that do not qualify as program revenues. All taxes, even those levied for a specific purpose, are general revenues, and the statement reports them by type of tax.

Required Disclosures

158. The notes to the financial statements must specify and define the basis of accounting and measurement focus applied to each fund type. This includes a definition of “measurable and available” and a description of the primary revenue sources considered "susceptible to accrual" under the modified accrual basis of accounting.

159. Balances of receivables reported on the statement of net position and the balance sheet may be aggregations of different components, such as balances due from taxpayers, other governments, or customers. When aggregation obscures significant components of receivables, the notes to the financial statements disclose details of the various types of receivables. Balances of receivables may also have different liquidity characteristics. The notes to the financial statements also disclose significant receivable balances not expected to be collected within one year of the date of the financial statements.

160. If not apparent from the face of the financial statements, the notes must disclose the amount and financial statement classification of insurance recoveries included in the financial statements.

161. The notes to the financial statements disclose nonexchange transactions, including grants, taxes, and contributions that agencies did not recognize because they are not measurable.

162. If specific revenues have been formally committed to directly collateralize or secure debt issued by the state, or to directly or indirectly collateralize or secure debt of a component unit, the notes must disclose the following information for each period that the secured debt remains outstanding.

a. Identification of the specific revenue pledged and the approximate amount of the pledge

b. Identification of, and general purpose for, the debt secured by the pledged revenue

c. The term of the commitment – that is, the period during which the revenue will not be available for other purposes

d. The proportion of the specific revenue stream pledged (if possible to estimate)

e. A comparison of the pledged revenue recognized during the period to the principal and interest requirements for the debt collateralized by those revenues

163. The chart below summarizes the classes and timing of recognition of nonexchange transactions.

Summary Chart – Nonexchange Transactions
Classes and Timing of Recognition of Nonexchange Transactions

Class Description	Recognition – Full Accrual	Recognition – Modified Accrual
Derived tax revenues: Assessments imposed by government on exchange transactions. **Examples:** Sales tax Personal income tax Corporate income tax	**Assets*:** Period when underlying exchange has occurred or when resources are received, whichever is first. **Revenues:** Period when underlying exchange has occurred. Report advance receipts as deferred revenues.	**Assets*:** Period when underlying exchange has occurred or when resources are received, whichever is first. **Revenues:** Period when underlying exchange has occurred and resources are available. Report advance receipts as deferred revenues.
Imposed nonexchange revenues: Assessments imposed by government on nongovernmental entities and on other than exchange transactions. **Examples:** Inheritance tax Most fines and forfeitures	**Assets*:** Period when an enforceable legal claim has arisen or when resources are received, whichever is first. **Revenues:** Same period the assets are recognized unless the enabling legislation includes time requirements (and if so, period when resources are required to be used or first period that use is permitted).	**Assets*:** Period when an enforceable legal claim has arisen or when resources are received, whichever is first. **Revenues:** Same period the assets are recognized unless the enabling legislation includes time requirements (and if so, period when resources are required to be used or first period that use is permitted). Resources must also be available.
Government-mandated nonexchange transactions: Government at one level provides resources to government at a different level and requires the recipient to use the resources for a specific purpose. **Examples:** Federal government mandates on state and local governments **Voluntary nonexchange transactions:** Legislative or contractual agreements other than exchanges entered into willingly by all parties. **Examples:** Certain grants and entitlements; most donations	**Assets* and liabilities:** Period when all eligibility requirements have been met or (for asset recognition) when resources are received, whichever is first. **Revenues and expenses:** Period when all eligibility requirements have been met. Report advance receipts or payments for use in the following period as deferred revenues or advances, respectively. However, when a provider precludes the sale, disbursement, or consumption of resources for a specified number of years, until a specified event has occurred, or permanently, report revenues and expenses when the resources are respectively received or paid and report resulting net position and equity as restricted.	**Assets* and liabilities:** Period when all eligibility requirements have been met or (for asset recognition) when resources are received, whichever is first. **Revenues and expenditures:** Period when all eligibility requirements have been met. For revenue recognition, resources must also be available. Report advance receipts or payments for use in the following period as deferred revenues or advances, respectively. However, when a provider precludes the sale, disbursement, or consumption of resources for a specified number of years, until a specified event has occurred, or permanently, report revenues and expenditures when the resources are respectively received or paid and report resulting net position and fund balance as restricted.

*If there are purpose restrictions, report restricted net position (equity) or, for governmental funds, a restricted fund balance.

OREGON ACCOUNTING MANUAL

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES STATEWIDE POLICY	**NUMBER** 15.40.00	**SUPERSEDES** 15.40.00 PO 15.40.00 PR dated 07/01/2001 and 02/08/2002
	EFFECTIVE DATE 09/10/2018	**PAGE NUMBER** Pages 1 of 7
Division **Chief Financial Office** **Policy Owner** Statewide Accounting and Reporting Services	**REFERENCE/AUTHORITY** ORS 279C.570 ORS 293.462 ORS 291.015 ORS 293.590 GASB Codification Section 1100 GASB Codification Section 1500 GASB Interpretation No. 6 GASB Statement No. 33 GASB Statement No. 34	
SUBJECT Accounting and financial reporting – Expenses, Expenditures, and Payables	**APPROVED SIGNATURE** ***George Naughton, Chief Financial Officer*** ***Signature on file***	

PURPOSE
This policy provides guidance on accounting and financial reporting related to expenses, expenditures, and payables to vendors, applicable to exchange transactions and nonexchange transactions involving financial or capital assets.

APPLICABILITY
This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

FORMS/EXHIBITS/INSTRUCTIONS
None.

DEFINITIONS
Click here for **definitions**.

EXCLUSIONS AND SPECIAL SITUATIONS
This policy does not apply to interfund and interagency transactions. Refer to OAMs **15.45.10**, **15.45.20**, **15.45.30**, and **35.70.10** for that guidance.

POLICY

101. Expenses/Expenditures and payables should be accounted for in accordance with generally accepted accounting principles (GAAP). Expenses/Expenditures and payables resulting from different types of transactions should be accounted for using the appropriate guidance. Agencies are responsible to analyze the nature of their transactions and use applicable guidance provided in this policy and the accompanying procedure.

102. GAAP requires that liabilities and expenses be recognized using the economic resources measurement focus and the accrual basis of accounting in proprietary funds and fiduciary funds as well as in the government-wide financial statements. Expenses and liabilities resulting from exchange transactions should be recognized when the exchange takes place. Expenses and liabilities arising from nonexchange transactions should be recognized when all eligibility requirements have been met. See **OAM 15.35.00** for a more detailed discussion of nonexchange transactions.

103. Governmental funds recognize liabilities and expenditures using the modified accrual basis of accounting. Liabilities are recognized to the extent that they are normally expected to be liquidated with available financial resources. Most expenditures are recognized when the related liability is incurred. However there are several exceptions to this general rule.

104. In the absence of an explicit requirement to do otherwise, governmental fund liabilities and expenditures should be accrued. Liabilities that governments normally pay in a timely manner and in full from current financial resources, for example salaries and utilities, should be recognized when incurred, without regard to the extent to which resources are currently available.

105. Agencies are responsible to pay vendors and contractors in a timely manner. When paying past due invoices, payment of interest charges shall not exceed limits established by statute.

PROCEDURES

Liability Recognition

106. In governmental funds, liabilities are recognized only to the extent they are normally expected to be liquidated with available financial resources. Accordingly, the following liabilities are not reported in governmental funds, but are reported as general long-term liabilities in the government-wide reporting fund only:

   a. Unmatured principal of long-term debt, such as bonds, notes, or capital leases.
   b. Accrued interest on long-term debt.
   c. Liabilities related to compensated absences, claims and judgments, or special termination benefits when not payable from current financial resources.
   d. Liabilities associated with operating leases containing scheduled rent increases.

107. Liabilities that will be paid with available financial resources are current liabilities of the governmental fund. Liabilities that will not be paid with available financial resources are considered general long-term liabilities of the government and are reported only in the government-wide reporting fund. However, for government-wide financial statement reporting purposes, the current portion of certain liabilities, compensated absences for example, will be that portion that is expected to be paid within one year of the balance sheet date rather than the portion to be paid with current financial resources. For this reason, additional entries may be needed in the government-wide reporting fund to properly reflect these liabilities.

108. In proprietary funds and fiduciary funds, liabilities should be recognized when incurred.

109. When a state agency is the provider in either a government-mandated nonexchange or voluntary nonexchange transaction, the agency should recognize a liability as soon as the recipient meets all eligibility requirements.

110. When a state agency is the recipient in either a government-mandated nonexchange or voluntary nonexchange transaction, it is possible that, as a result of failing to continue to comply with eligibility requirements or purpose restrictions, the agency is no longer entitled to resources that

have already been recognized in the financial statements. In this case, the agency should recognize an expense and a liability for the amount of resources that the provider is expected to reclaim or cancel.

Recognition of Expenses or Expenditures

111. Expenses are recognized in proprietary and fiduciary funds as soon as the related liability is incurred, regardless of the timing of the related cash flow. The same is also generally true for expenditure recognition in governmental funds. However, under modified accrual accounting used in governmental funds, there are several exceptions to this general rule. At fiscal year-end, liabilities and the related expenditures may be accrued with the following entry:

TC 437 To establish expenditure accrual (auto reverses)

DR 3505 Expenditure Control – Financial Statement Accrual	XXX	
CR 1215 Accounts Payable		XXX

112. Some expenditures are recognized in governmental funds only when due and payable (matured). These typically are related to general long-term indebtedness and include:

a. Debt service principle and interest payments on formal debt issues.
b. Compensated absences.
c. Claims and judgments.

113. Financial resources that have been accumulated for eventual payment of the unmatured portion of the liabilities in paragraph .111 does not represent an outflow of current financial resources and therefore should not be recognized as an additional governmental fund expenditure or liability.

Prompt Payment

114. Invoices from vendors and contractors should be paid promptly. The date of the check or warrant is used to determine if the claim was paid timely. Overdue charges are recorded separately from other expenses or expenditures.

115. For private vendors providing goods and services, payment will be made within 45 days. Overdue charges are paid at a rate of two-thirds of one percent per month, not to exceed eight percent per annum. Overdue claims are those that have not been paid within 45 days from the latest of the following dates:

a. The date of receipt of the invoice.
b. The date of the initial billing statement, if no invoice is received.
c. The date the claim is made certain by agreement of the parties or by law.

116. For contractors performing on public contracts, payment will be made within 30 days. If not paid within 30 days, interest is paid on the amount due the contractor, not including retainage. Overdue charges are paid at a rate of three times the discount rate on 90-day commercial paper in effect at the Federal Reserve Bank, not to exceed thirty percent. The date from which interest shall be calculated is the earlier of the following dates:

a. Thirty days after receipt of the invoice from the contractor.
b. Fifteen days after the payment is approved by the agency.

Merchant Fees

117. Merchant fees are discount fees paid by agencies to financial institutions. Financial institutions charge merchant fees, which generally are a small percentage of each credit card transaction, when accepting credit card payments. Merchant fees should be recorded as an expense in comptroller object 4730 and the related credit card revenue should be recorded at the gross amount.

Credit Card Surcharges

118. Merchants are allowed, but not required, to charges customers a credit card surcharge equal to the cost of accepting credit cards. If charged, the merchants are required to identify the credit card surcharge on the receipt. If agencies are charged a credit card surcharge when using their SPOTS cards to pay for goods and services, the surcharge shall be recorded separately, using comptroller object 4735.

Collection Fees

119. Collection fees are amounts paid to collection agents (Department of Revenue or private collection firm) for the cost of collecting accounts receivable. Collection agents generally charge a percentage of each accounts receivable balance, although a specific dollar amount may be agreed upon. In the event that collection fees are withheld from the amount remitted to a state agency and the state agency does not charge the debtor the collection fee, account for the transaction in accordance with paragraphs 120 and 121 below. Use comptroller object 4720 if the fee is charged by the Department of Revenue and comptroller object 4725 if the fee is charged by a private collection firm.

120. If an agency referred a $1,000 accounts receivable to Department of Revenue that charged a 10 percent collection fee ($100), and resulted in a net remittance of $900, the following entries would be recorded when collection fees are recorded as an expense (assume the receivable is in SFMA):

TC 176 To record collection of an accounts receivable

DR 0065 Unreconciled Deposit	1,000	
DR 3101 Revenue Control-Accrued (CO 0407 Charges for Services)	1,000	
CR 0501 Accounts Receivable Other - Billed		1,000
CR 3100 Revenue Control-Cash (CO 0407 Charges for Services)		1,000

TC 222 To record payment of collection fee to Department of Revenue

DR 3501 Expenditure Control-Accrued (CO 4720 Department of Revenue)	100	
CR 1211 Vouchers Payable		100

121. If Department of Revenue referred the above mentioned $1,000 accounts receivable to a private collections firm that charged a 10 percent collection fee ($100), the private collection firm would remit the $900 to the Department of Revenue and Department of Revenue would send the $900 to the state agency. The following entries would be recorded when collection fees are recorded as an expense (assume the receivable is in SFMA):

TC 176 To record collection of an accounts receivable

DR 0065 Unreconciled Deposit	1,000	
DR 3101 Revenue Control-Accrued (CO 0407 Charges for Services)	1,000	
CR 0501 Accounts Receivable Other - Billed		1,000
CR 3100 Revenue Control-Cash (CO 0407 Charges for Services)		1,000

TC 222 To record payment of collection fee to a private collection firm

DR 3501 Expenditure Control-Accrued (CO 4725 Private Collection Firm)	100	
CR 1211 Vouchers Payable		100

Food Stamps

122. Food stamp expenditures should be recognized when the benefits (cash or food stamps) are distributed. In an electronic benefit transfer (EBT) system, distribution takes place when the individual recipients use the benefits.

Bad Debt Expense

123. Bad debt expense should be recorded only in conjunction with transactions in which there is no revenue associated with the receivable, for example loans receivable. For receivables that have an associated revenue, such as taxes receivable, uncollectible amounts should be reflected as a reduction of revenue rather than bad debt expense (see **OAM 15.35.00** for appropriate entries). In either case, the receivable should be recorded at gross amount, with an offsetting entry to Allowance for Doubtful Accounts reflecting the estimated uncollectible amounts. Bad debt expense may be recorded using the following entry:

TC 461R To record estimated uncollectible amounts when there is no revenue object associated with the receivable to reduce

DR 3600 GAAP Expenditure Offset (CO 7479 Bad Debt Expense)	XXX	
CR 0934 Allowance for Doubtful Accounts-Noncurrent		XXX

Administrative Hold Process

124. Agency management is responsible for determining whether a vendor payment shall be garnished. Further, agency management shall apply good judgment and independent thinking when determining not to garnish a vendor payment where otherwise allowed by law or regulation. When agency management determines that it will not garnish a vendor payment the agency must document the basis for its decision. Refer to **OAM 35.30.90** for additional information.

a. SFMS staff will inactivate the 51/52 profile screens for vendors on the Department of Revenue debtor list on a daily basis.

b. A/P staff receiving the error message of “Vendr Status Not “A”” when entering a transaction should look at the 52 screen.

i. If '*PLEASE CONTACT DOR*' appears in the address section, determine if the payment is subject to garnishment. For example, **worker's compensation payments, unemployment benefits, and federal grant payments (whether paid to a subrecipient or contractor) are not subject to garnishments**. Additional examples can be found in **ORS 18.845**. Federal fund payments that are not affiliated with a grant may be subject to garnishment.

   1. If the payment is not subject to garnishment, send a request to SFMS to temporarily activate the vendor.

   2. If the payment is subject to garnishment, notify Department of Revenue of the debtor/vendor match via Revenue Online.

ii. If Department of Revenue does not issue a garnishment, send a request to SFMS to temporarily activate the vendor.

iii. If Department of Revenue issues a garnishment, the paying agency will need to create mail code 444 for the vendor. (Mail code 444 is for payments collected by Department of Revenue for this specific process, do not use mail code 444 for any other garnishment process.) Notify SFMS when the mail code is ready to be activated.

   1. When completing the vendor payment transaction, the Garnish ID must be included in the invoice description field and must not use a future due date.

   2. State agencies must complete the garnishee response when processing a DOR garnishment. The garnishment will contain instructions on how to respond.

iv. Any vendor disputes shall be directed to Department of Revenue.

v. Agencies shall retain the garnishment paperwork as supporting documentation.

c. For directions to log on to Revenue Online and other information regarding the administrative hold process, access the Executive Order 17-09 Coordination of Vendor Payments training materials located within iLearn.

Other Items

125. GAAP requires that certain items be displayed separately in the financial statements. In order to ensure that these items are properly reported, separate comptroller objects have been assigned to them. The following items should be recorded using the comptroller objects indicated:

- Extraordinary Items 2450
- Special Items 2500

Financial Statement Presentation

126. In governmental funds, expenditures are presented in the statement of revenues, expenditures and changes in fund balances by function. Other decreases in financial resources such as transfers to other funds are presented in the "other financing sources (uses)" section of the financial statement special items and extraordinary items are presented separately after "other financing sources (uses)".

127. In fiduciary funds, expenses are reported as deductions from net position in the statement of changes in fiduciary net position. In proprietary funds, expenses are reported in the statement of revenues, expenses and changes in fund net position. Proprietary fund expenses are segregated into operating expenses and nonoperating expenses and are classified by major category.

128. Operating expenses generally result from providing services and producing or delivering goods. Operating expenses include payments to acquire materials for providing goods or services, payment to employees for services, payment for distributions to other governments or organizations for specific activities that are considered to be operating activities of the grantor government, payment for internal service goods and services, as well as payment for interest on long-term debt.

129. Nonoperating expenses are presented below the line item for operating income and include items not directly associated with agency operations such as a loss on the disposition of assets. Reported separately after the net total of nonoperating revenues and expenses are capital contributions, additions to permanent and term endowments, special items, extraordinary items, and transfers to and from other funds.

130. In the government-wide statement of activities, expenses are reported by function except those that meet the definition of special or extraordinary items. Direct expenses of a function are those that are specifically associated with a specific service, program, or department and, thus, are clearly identifiable to a particular function. Special items, extraordinary items, and transfers to and from other funds are reported separately below general revenues.

Required Disclosures

131. The notes to the financial statements should specify the basis of accounting and measurement focus used in each fund type and in the government-wide financial statements.

132. The State's policy for defining operating and nonoperating revenues and expenses for proprietary funds must be disclosed in the summary of significant accounting policies. The summary must also disclose the State's policy for eliminating internal service fund activity in the government-wide statement of activities.

133. Note disclosure of information pertaining to long-term debt and other long-term liabilities is required by GAAP. Agencies will provide needed disclosure information to Statewide Accounting and Reporting Services (SARS) for financial statement note disclosure purposes. Agencies with audited financial statements should include disclosures required for long-term liabilities in the notes to their financial statements.

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	**Number:** 15.41.00
Division:	Chief Financial Office	**Effective date**: September 16, 2014
Chapter:	Accounting and Financial Reporting	
Part:	Withholding from Non-state Entities	
Section:		
Approved:	George Naughton, Chief Financial Officer	Signature on file

PURPOSE: This policy provides guidance on accounting and financial reporting for the withholding of state payments or distributions from non-state entities.

AUTHORITY: **ORS 293.590**

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

This policy does not apply to the withholding of funds for taxes and benefits that occur through Oregon Statewide Payroll System.

This policy does not apply to an intercept of funds that has been agreed to by contract, or is required by law, to secure the repayment of a borrowing by the State, a loan from the State or a borrowing by a local government, including, but not limited to an intercept under **ORS 328.284**, **328.346**, **238.698** or **470.180**.

DEFINITIONS: For purposes of this OAM, Authorizing Agency and Withholding Agency are defined as follows:

Authorizing Agency: The agency that issues the enforcement order, requesting the withholding of state payments or distributions.

Withholding Agency: The agency that withholds the state payments or distributions, at the request of the Authorizing Agency.

Click here for other **definitions**.

POLICY:

101. To qualify as an Authorizing Agency, the agency must have the statutory authority to withhold state payments or distributions, or request that other agencies withhold state payments or distributions, from a non-state entity.

102. The Authorizing Agency must obtain an enforcement order enabling them to request that withholding occur. The enforcement order should identify the following:

a. The non-state entity from which to withhold disbursements;
b. The amount to withhold; and
c. The date withholding is effective.

103. The Authorizing Agency is responsible to manage the withholding, which includes but is not limited to:

- Communicating with the non-state entity from which to withhold state payments or distributions.
- Determining which state payments or distributions are eligible for withholding.
- Notifying Withholding Agencies in writing of the enforcement order, specific payments or distributions to withhold, in addition to the information outlined in paragraph 102.
- Notifying Withholding Agencies in writing of any changes in the enforcement order.
- Notifying Withholding Agencies in writing when the enforcement order is terminated.
- Ensuring compliance with the enforcement order.
- Tracking the total amount withheld.
- Coordinating with Withholding Agencies when the total amount withheld approaches the amount authorized by the enforcement order.
- Maintaining documentation that complies with **OAM 10.15.00.PO**, *Transaction Documentation Requirements*.
- Providing other documentation to Withholding Agencies so that they may comply with OAM 10.15.00.PO.

104. If allowed by statute, the Authorizing Agency may recover the costs to administer the withholding from the amount withheld.

105. The amount withheld remains with the Withholding Agency until the Authorizing Agency notifies the Withholding Agency in writing to release the withheld payments or distributions.

PROCEDURES:

106. After an Authorizing Agency obtains an enforcement order, it determines what amounts are subject to withholding and requests the Withholding Agency in writing to withhold eligible payments or distributions. Eligible payments or distributions are generally identified by statute and may include these examples:

a. Cigarette tax
b. Liquor tax
c. Quarterly revenue sharing
d. Highway revenue apportionment

107. The Withholding Agency reports authorized withholdings by either:

a. Using a separate D23 fund that will be reported within D24 GAAP fund 6405, *Custodial Agency Funds,* which should be used if the amount withheld is significant; or

b. Using GL account 1551, *Deposit Liability-Without DF Support,* within the D23 fund which reports the disbursement activity.

108. The Withholding Agency accounts for the withholding in one of three ways:

a. Record the distribution as if the funds were actually going to the non-state entity, then receipt the funds back in, using T-code 162.

   TC 162: Record receipt of deposit liability without doc support

   DR 0065 Unreconciled Deposit
   CR 1551 Deposit Liability – Without DF Support

   This is appropriate in the scenario outlined in paragraph 107(a) above, since a Custodial Agency Fund is a fiduciary fund.

   It would also be appropriate if the Withholding Agency needs to prepare a warrant for the amount of the withholding, so that other non-state entities are not impacted by the withholding.

b. If the distribution is typically recorded by the Withholding Agency as a reduction of revenue rather than an expense, use T-code 908.

   TC 908: Charge revenue to deposit liability – No auto reverse

   DR 3200 GAAP Revenue Offset (Applicable comptroller object)
   CR 1551 Deposit Liability – Without DF Support

c. If the distribution is recorded as an expense by the Withholding Agency, use T-code 909R.

   TC 909R: Charge expenditure to deposit liability – No auto reverse

   DR 3600 GAAP Expenditure Offset (Applicable comptroller object)
   CR 1551 Deposit Liability – Without DF Support

109. The Withholding Agency sends monthly reports to the Authorizing Agency detailing the amount withheld under the enforcement order. The Authorizing Agency determines the timing and format of the reports; see paragraph 103.

110. When the Authorizing Agency has notified the Withholding Agency in writing to release all or a portion of the amount withheld, account for the released amount using T-code 287.

   TC 287: Return deposit liability to depositor – No doc support

   DR 1551 Deposit Liability – Without DF Support
   CR 1211 – Vouchers payable

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Procedure

OREGON ACCOUNTING MANUAL			
SUBJECT:	Accounting and Financial Reporting	**Number:**	15.42.00
DIVISION:	Chief Financial Office	**Effective date:**	April 1, 2013
Chapter:	Accounting and Financial Reporting		
Part:	Federal Grants		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for federal awards received by the State. This policy requires agencies that directly use **R*STARS** to use specific grant profiles for accounting and reporting of federal grants as outlined in this policy.

AUTHORITY:
ORS 293.590
ORS 291.015
ORS 291.040
Single Audit Act of 1984 as amended in 1996
Office of Management and Budget (OMB) Circular A-133

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

The policy applies to all agencies that receive and expend **federal awards**. Agencies that interface transactions to R*STARS are encouraged, but are not required, to use specific grant profiles, as outlined in this policy, for accounting and reporting of federal grants.

DEFINITIONS: **Federal awards** are federal financial assistance and federal cost-reimbursement contracts that non-federal entities (such as the State) receive directly from federal awarding agencies or indirectly from pass-through entities.

Click here for other **definitions**.

POLICY:

101. Agency management must ensure the proper accounting and reporting of federal grants received by their agency.

Required Grant Profiles

102. To comply with the provisions of the Single Audit Act, the State prepares a federal reporting package as required by **OMB Circular A-133**, *Audits of States, Local Governments, and Non-Profit Organizations*. As part of the federal reporting package, Statewide Accounting and Reporting Services (SARS) compiles a **Schedule of Expenditures of Federal Awards (SEFA)** annually based on data that agencies provide (see **OAM 30.10.00.PO**). In order to facilitate the

effective and efficient compilation of the SEFA, agencies that receive and expend federal awards must use the following grant profiles to account for their federal grants:

- D35 Grant Type
- D40 Grant Category
- D28 Grantor
- D47 Grant Number
- 029 Grant Control

Optional Profiles

103. Agencies may use the following lower level profiles for grant accounting, at their discretion: D48 Grant Object and 026 Program Cost Account.

Accounting for Grants

104. The SEFA reports expenditures on the same **basis of accounting** as the originating funds and must tie to expenditures recorded in the agency's accounting records. Generally, agencies account for federal grants in a **special revenue fund**; thus, the basis of accounting would be the **modified accrual basis of accounting**.

105. In order to ensure consistent accounting data, agencies must apply the standard accounting treatment for federal award transactions as outlined in the accompanying procedure.

106. Agencies must account for and report federal awards as federal revenues, regardless of how they are budgeted (i.e., federal funds budgeted as other funds) to ensure accurate reporting for the SEFA.

107. Agencies are encouraged to consider how the use of grant profiles will facilitate other types of reporting (in addition to SEFA reporting), such as periodic federal program reporting or managerial tracking and reporting of federal grants.

Reporting SEFA Data

108. Agencies will use a standard Hyperion query that is available through the Datamart Repository for annual SEFA reporting. Agencies are responsible for reviewing the data to ensure accuracy and completeness of the SEFA information for their agency.

PROCEDURE:

Using Required Grant Profiles

109. Agencies that receive and expend **federal awards** must use certain grant profiles to account for their federal grants in order to facilitate the efficient compilation of the annual SEFA. Two of these grant profiles are maintained at the statewide level, while the other three are established and maintained by each agency as noted below:

- D35 Grant Type — Maintained at the statewide level
- D40 Grant Category — Maintained at the statewide level
- D28 Grantor — Maintained by each agency
- D47 Grant Number — Maintained by each agency
- 029 Grant Control — Maintained by each agency

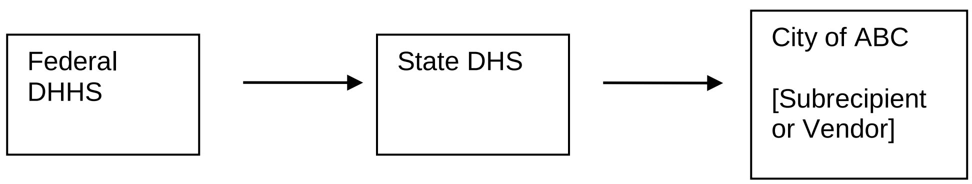
110. The Grant Type profile (D35) is a key element to ensure proper reporting of federal grant related transactions for SEFA reporting purposes. Selecting the appropriate grant type involves determining: 1) whether the grant is reimbursable or advanced, 2) whether the grant is a direct award or an indirect award, and 3) whether the federal funds are budgeted as Federal Funds or budgeted as Other Funds.

111. If an agency first incurs expenditures and then subsequently requests reimbursement from the federal agency, the grant is a *reimbursable grant*. If an agency requests funds from the federal agency before incurring expenditures, the grant is an *advanced grant*.

112. In order to select the appropriate grant type, it is necessary to determine if the grant is a direct award or an indirect award. The State receives federal funds in one of two ways: either *directly* from a federal agency or *indirectly* from a non-federal entity. Below is an illustration of a direct award:

Direct Award

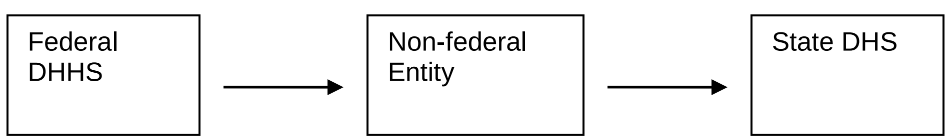
The State *receives* federal funds *directly from a federal agency* and sends the federal funds to a Subrecipient Organization or a Vendor.



Below is an illustration of an indirect award:

Indirect Award

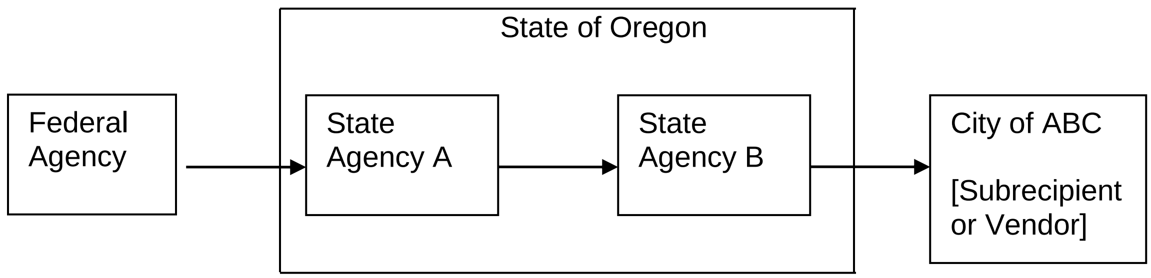
The State *receives* federal funds from a *non-federal entity* and expends the funds on a State program.



113. As used in this context, another state agency is not a *non-federal entity*. The State is *one entity* to the federal government; thus, movement of federal funds from one state agency to another is transparent for SEFA reporting purposes. Federal funds that Agency A receives from a federal agency, and then transfers to Agency B are a direct award to both Agency A and Agency B. Below is an illustration to show that this is a direct award.

Direct Award

The State *receives* federal funds *directly from a federal agency* and sends the federal funds to a Subrecipient Organization or a Vendor (even though the funds are first sent to Agency A and then transferred to Agency B). In this scenario, the grant is a direct award to the State; therefore, the Grant Type used by both Agency A and Agency B should reflect that the grant is a direct award.



Agency A: Reports *federal revenue* and a *transfer out* to Agency B.

Agency B: Reports a *transfer in* from Agency A and reports *federal expenditures* (which are reported as "direct expenditures" if monies are sent to a *vendor*, but are reported as "pass-through to subrecipient" if monies are sent to a *subrecipient*).

114. The following steps are essential when establishing the Grantor (D28), Grant Number (D47), and Grant Control (029) profiles and determining the appropriate Grant Type (D35) and Grant Category (D40) to code each federal grant:

a. Step 1: Research your federal grants to determine the appropriate Grant Type (D35) from the list below. Do not use Grant Type 03 or Type 04 for federal grants. In order to determine which grant type to associate with a grant received from another state agency, it is first necessary to find out whether the grant is a direct award or an indirect award *to the sending agency.* If the grant is a direct award to the sending agency, your agency should also consider the grant a direct award. If the grant is an indirect award to the sending agency, your agency should also consider the grant an indirect award. Then, determine how your agency budget categorizes the grant from the other agency (budgeted as federal funds, or budgeted as other funds) and whether the grant is reimbursable or advanced. Based on these three pieces of information, determine which grant type to associate with the grant received from another state agency by selecting the applicable grant type from the list below.

- Grant Type 01 = Federal grant – reimbursable (direct award)
- Grant Type 02 = Federal grant – advanced (direct award)
- Grant Type 05 = Indirect federal grant – reimbursable
- Grant Type 06 = Indirect federal grant – advanced
- Grant Type 07 = Federal as other funds – reimbursable (direct award)
- Grant Type 08 = Federal as other funds – advanced (direct award)
- Grant Type 09 = Indirect federal as other funds – reimbursable
- Grant Type 10 = Indirect federal as other funds – advanced

b. Step 2: Research your federal grants to determine the appropriate Grant Category (D40). The grant category defines the CFDA (Catalog of Federal Domestic Assistance) number and title of federal programs. All federal grant transactions must have a CFDA number for SEFA reporting purposes, even if a CFDA number for the federal program is not yet available. If no CFDA number exists for a particular grant, use a grant category formatted with the first two digits as the federal agency, followed by xxx (e.g., 20.xxx for a grant from the U.S. Department of Transportation). In addition, there are non-federal grants such as Grant category 99.997 Private Donations, 99.998 Non-federal/State Grants, and 99.999 Non-federal Grants. Non-federal grants must contain grant type 03 State Grant or 04 Other Grant.

c. Step 3: Establish the Grantor profile (D28). An agency must establish a separate grantor profile for every entity from which they receive federal funds (including another state agency). If an agency receives federal awards from multiple divisions or units within one federal agency, it is only necessary to establish a single grantor profile for the federal agency.

d. Step 4: Establish the Grant Number profile (D47). The grant number profile defines a grant number and an associated title for the grant. Agencies must establish a grant number profile for every federal grant. If federal funds for a given grant are budgeted as Other Funds and the agency has an Other Fund matching component, it is necessary to establish two different grant number profiles to track the federal expenditures separately from the Other Fund matching expenditures. The separate grant number profile for the Other Fund match will be tied to Grant Type 03 or 04 (non-federal). If federal funds for a given grant are budgeted as Federal Funds and the agency has an Other Fund or General Fund matching component, the agency may use a single grant number profile to track both the federal expenditures and the expenditures paid for with Other Funds or General Fund. In addition, if federal funds for a given grant are budgeted as Other Funds and the agency has a General Fund (only) matching component, the agency may use a single grant number profile to track both the federal expenditures and the General Fund expenditures. Associate each grant number profile with a specific grantor ID number (D28), Grant Category (D40) and Grant Type (D35). If no CFDA number exists for a particular grant, agencies must use the *award contract number* field (20 characters) to track the federal program.

e. Step 5: Establish the Grant Control profile (029). Agencies use the grant control profile to establish a phase for each grant, which is required to enter transactions related to federal grants. Associate each Grant Control Profile with a Grant Number (D47) profile.

115. Appendix A, an addendum to this procedure, describes each of the grant profiles listed above in 109. The purpose of the appendix is to assist agencies with understanding, establishing, and maintaining these profiles.

Standard Accounting Treatment

116. In order to ensure consistent accounting data for SEFA reporting, it is essential that all agencies that receive and expend federal awards handle similar accounting transactions in a consistent, standard manner. Agencies must record the following types of transactions in the manner described below:

a. When recording federal revenue *received either directly or indirectly*, agencies must record the revenue using the appropriate comptroller object. Use comptroller object 0300, Federal Revenue, for federal revenue whether the federal funds are budgeted as Federal Funds or as Other Funds. Record the federal revenue in a D23 fund with an appropriated fund that begins either with ‘6’ (federal source) or ‘3’ (for federal funds budgeted as other funds). Additional comptroller objects available to record federal revenue are 0355, Federal Revenue as Other Funds; 0360, Federal Revenue Service Contracts; and 0365, Build America Bonds Federal Credit.

b. When *sending* federal funds to another *state agency*, agencies must record the transaction as an interagency transfer using the applicable comptroller object, Transfer Out to Agency xxx (c/o 1430 and 1801 through 1915 or 6081 through 6197, excluding 6093). This does not apply when a state agency is a vendor of another state agency (see 117 through 121 below).

c. When *receiving* federal funds from another *state agency*, agencies must record the transaction as an interagency transfer using the applicable comptroller object, Transfer In from Agency xxx (c/o 1279 through 1400, excluding 1301, 1303 and 1356). In some cases, the receiving agency will budget federal funds as other funds; however, the transaction is still a Transfer In from Agency xxx. This does not apply when a state agency is a vendor of another state agency (see 117 through 121 below).

d. When *sending* federal funds to a **subrecipient**, agencies must record the distribution using one of the following comptroller objects, depending on the type of organization to which the federal funds are being sent:

- 1404 Transfer to Cities
- 1405 Transfer to Counties
- 1407 Transfer to Oregon Health and Science University (a component unit)
- 1408 Transfer to Non-Governmental Units
- 1435 Transfer Out to Semi Independent Agency
- 6093 Distribution to Oregon Health and Science University (a component unit)
- 6300 Distribution to Counties
- 6400 Distribution to Cities
- 6500 Distribution to Community College Districts
- 6600 Distribution to Local School Districts
- 6700 Distribution to Other Governments
- 6725 Distribution to Non-Governments
- 6726 Distribution to For-Profit Subrecipient
- 6727 Loans Made – Subrecipient Distribution
- 6730 Other Distributions to Subrecipients
- 6735 Distribution to Non-Profit Organizations
- 6740 Other Distribution to Taxable Subrecipient

e. An agency incurs a *direct expenditure* when it carries out the federal program, not when it passes federal funds through to another organization (subrecipient) that carries out the federal program. Direct expenditures plus amounts provided to subrecipients equals total expenditures reported in the SEFA for any given agency. Agencies may charge direct expenditures of federal funds to Personal Services comptroller objects, Services & Supplies comptroller objects, comptroller object 1456 Transfer Out – Indirect Cost Center, or one of the following Special Payment Comptroller Objects (do not use any of the comptroller objects listed in 116d above):

- 6800 Distribution to Individuals
- 6805 Client / Benefit Payments
- 6808 Distributions to Non-Employees
- 6810 Rental Assistance
- 6820 Payments to Counties
- 6821 Payments to Cities
- 6822 Payments to Community College Districts
- 6823 Payments to Local School Districts
- 6824 Payments to Other Governments
- 6826 Payments to Non-Governments
- 6850 Loans Made to Individuals
- 6875 Loans Made – Other
- 6893 Payments to OHSU
- 6900 Other Special Payments

- 6905 Loan Repayment on Behalf of Grant Subrecipients
- 6910 Distribution to Contract Service Provider
- 6950 Other Special Payments – Medical Services

f. For *distributions to subrecipients*, agencies must record a separate year-end accrual for each subrecipient, broken out by **CFDA n**umber, subrecipient organization and tax ID number, and grant number for SEFA reporting. The following transaction code allows for this level of detail:

TC 941 - Accrue distribution to subrecipient

DR 3505 Expenditure Accrual (use only comptroller objects shown in116d)
CR 1215 Accounts Payable or 1512 Due to Other Governments

Transaction code 941 will auto-reverse in the following month with transaction code 942.

g. For *direct federal expenditures*, agencies may record year-end accruals in a lump sum for each **CFDA** number, which must include a grant number for SEFA reporting. The following transaction code allows for this level of detail:

TC 437 - Accrue direct expenditure

DR 3505 Expenditure Accrual (use only comptroller objects allowed per 116e)
CR 1215 Accounts Payable or 1512 Due to Other Governments

Transaction code 437 will auto-reverse in the following month with transaction code 983.

Distinguishing Between Subrecipient vs. Vendor

117. In order to apply the standard accounting described in 116 and to report properly on the SEFA, it is essential that agencies determine when they are distributing federal funds to a *subrecipient* versus when they are using federal funds to pay a *vendor* for goods or services rendered. This distinction is also important because federal awards expended as a subrecipient are subject to audit (in accordance with **OMB Circular A-133**, *Audits of States, Local Governments, and Non-Profit Organizations*); however, payments received for goods or services provided as a vendor are not considered federal awards. Thus, this distinction determines whether the organization that is receiving a payment from an agency (made using federal funds) is subject to audit.

118. A subrecipient is a non-federal entity that *expends* a federal award it *receives from a pass-through entity* to carry out a federal program. Characteristics indicative of a federal award received by a subrecipient are when *the organization* that received the payment:

a. Determines who is eligible to receive what federal financial assistance;
b. Has its performance measured against whether the objectives of the federal program are met;
c. Has responsibility for programmatic decision making;
d. Has responsibility for adherence to applicable federal program compliance requirements; and
e. Uses the federal funds to carry out a program of the *organization* as compared to providing goods or services for a program of *the pass-through agency*.

119. *One state agency can never consider another state agency to be a subrecipient.* This is because the State is one entity to the federal government; thus, movement of federal funds from one state agency to another is transparent for SEFA reporting purposes and agencies must record this movement as a transfer from one state agency to the other (see 116b and 116c

above). However, it is possible that a state agency can be a vendor of another state agency, if it meets the definition of a vendor (see 120 below).

120. A vendor is a dealer, distributor, merchant, or other provider of goods or services needed to administer a federal program. The goods or services may be for an entity's own use or for the use of beneficiaries of the federal program. Characteristics indicative of a *payment for goods or services* received by a <u>vendor</u> are when *the organization* that received the payment:

a. Provides the goods or services within normal business operations;
b. Provides similar goods or services to many different purchasers;
c. Operates in a competitive environment;
d. Provides goods or services that are ancillary (not essential) to the operation of the federal program; and
e. Is not subject to compliance requirements of the federal program.

121. In making the determination of whether a subrecipient or vendor relationship exists, the *substance* of the relationship is more important than the *form* of the agreement. The key is to determine the nature or the intent of the relationship between the agency and the entity to which the agency is making a payment.

Using Repository Reports for SEFA Reporting

122. Agencies must use the SEFA Reports available through the Datamart Repository for fiscal year-end SEFA reporting. The basis of the queries that produce these reports is the standard accounting treatment outlined in this procedure. Each agency will run the query report for their agency, review the data in the report to ensure accuracy, and submit their SEFA reporting data following applicable year-end procedures as provided by Statewide Accounting and Reporting Services (SARS).

Appendix A

Federal Grant Profiles

Agencies must establish several of the R-Stars profiles in a specific order because of their interrelationships. The profile relationship chart below illustrates dependencies between the selected profiles. Some profiles must be in place before agencies may establish other profiles.

Profile Relationships

Required Profiles

Profile	Relationship
D35 Grant Type	I
D40 Grant Category	I
D28 Grantor	I
D47 Grant Number	D (D28, D35, D40)
029 Grant Control	D (D47)

Optional Profiles

Profile	Relationship
D48 Grant Object	D (D47)
026 Program Cost Account	D (D04)

I = Independent within the group
D = Dependent upon other profiles (shown in parentheses) being established

D35 Grant Type Profile

The grant type profile (D35) is a centrally maintained profile that defines the grant type and associated title. There are 10 different grant types on the D35 profile screen. Each D47 Grant Number profile must tie to a specific D35 Grant Type profile. Agencies must use the D35 profile for federal grant accounting and reporting. This includes federal funds budgeted as other funds. When your grant is from another state agency, refer to paragraph 114(a) in the procedure in order to determine the appropriate grant type.

```
SD35 VER 2.0                      STATE OF OREGON                02/07/12 08:10 AM
 LINK TO:                       GRANT TYPE PROFILE
PROD

 GRANT TYPE: 01

      TITLE: FEDERAL GRANT - REIMBURSABLE
```

Definitions of Grant Types

Grant Type 01: Federal Grant – Reimbursable. Classify a federal grant as type 01 when your agency receives federal funds *directly* from a federal agency *and* when your agency incurs expenditures first, and then requests reimbursement from the federal agency.

Grant Type 02: Federal Grant – Advanced. Classify a federal grant as type 02 when your agency receives federal funds *directly* from a federal agency *and* when your agency requests funds from the federal agency before (in advance of) incurring expenditures.

Grant Type 03: State Grant. Do not use this grant type for federal grant reporting.

Grant Type 04: Other Grants. Do not use this grant type for federal grant reporting.

Grant Type 05: Indirect Federal Grant – Reimbursable. Classify a federal grant as type 05 when your agency receives federal funds *indirectly* (meaning, from a *non-federal* entity) *and* when your agency incurs expenditures first, and then requests reimbursement from the non-federal entity.

Grant Type 06: Indirect Federal Grant – Advanced. Classify a federal grant as type 06 when your agency receives federal funds *indirectly* (meaning, from a *non-federal* entity) *and* when your agency requests funds from the non-federal entity before (in advance of) incurring expenditures.

Grant Type 07: Federal as Other Funds – Reimbursable. Classify a federal grant as type 07 when your federal funds are budgeted as other funds, when your agency receives federal funds *directly* from a federal agency *and* when your agency incurs expenditures first, and then requests reimbursement from the federal agency.

Grant Type 08: Federal as Other Funds – Advanced. Classify a federal grant as type 08 when your federal funds are budgeted as other funds, when your agency receives federal funds *directly* from a federal agency *and* when your agency requests funds from the federal agency before (in advance of) incurring expenditures.

Grant Type 09: Indirect Federal as Other Funds – Reimbursable. Classify a federal grant as type 09 when your federal funds are budgeted as other funds, when your agency receives federal funds *indirectly* (meaning, from a *non-federal* entity) *and* when your agency incurs expenditures first, and then requests reimbursement from the non-federal entity.

Grant Type 10: Indirect Federal as Other Funds – Advanced. Classify a federal grant as type 10 when your federal funds are budgeted as other funds, when your agency receives federal funds *indirectly* (meaning, from a *non-federal* entity) *and* when your agency requests funds from the non-federal entity before (in advance of) incurring expenditures.

D40 Grant Category Profile

The grant category profile (D40) is a centrally maintained profile that defines the CFDA number of a federal program (grant category) along with the associated title. Agencies must use the D40 profile for federal grant accounting and reporting.

```
SD40 VER 2.0                     STATE OF OREGON                 06/07/12 08:18 AM
 LINK TO:                    GRANT CATEGORY PROFILE
PROD


 GRANT CAT: 16.745   TITLE: CRIMINAL & JUVENILE JUSTICE & MENTAL HEALTH COLLAB

 PREVIOUS GRANT CAT: 16.745






                                                              STATUS CODE: A
  EFF START DATE: 03012006   EFF END DATE:             LAST PROC DATE: 04142006
```

Data Fields

1. Grant Category: The grant category represents the CFDA number of a federal program. If a federal program does not have a CFDA number, SARS may need to add a new grant category to the D40 profile. The format would be the two-digit federal agency number, followed by **.**XXX. For example, a grant from the federal Department of Transportation would be 20.XXX. If your agency needs a new D40 profile, please contact SARS to ask that the new profile be established in R*STARS. Once SARS approves the CFDA number, SARS will contact SFMS to update the D40 screen. Please include the new CFDA number and the complete title. If a CFDA number does not exist, provide the federal agency number and the name of the federal agency.

2. Title: The title represents the name of the federal program (title associated with a CFDA number).

   Note: When the list of changes or deleted CFDA numbers is posted to the CFDA.gov website (currently it is twice a year), SARS incorporates the changes into the grant category profile. For deleted CFDA numbers, SARS usually changes the effective end date to 12/31 of the current year to prompt archiving of these old profiles. If an agency needs to continue using an old CFDA number, please contact your SARS analyst.

D28 Grantor Profile

The D28 grantor profile is an agency maintained profile that defines the grantor identification number and the associated name and address for grant reporting. A grantor is an organization from which an agency receives a grant (including another state agency). Agencies must use the D28 profile for federal grant accounting and reporting.

```
SD28 VER 2.0                     STATE OF OREGON              06/07/12 08:13
 LINK TO:                        GRANTOR PROFILE                Note: N PROD



       AGENCY: 213 (MUST BE IN D02 AGENCY PROFILE)
           ID: 930902048

         NAME: US DEPARTMENT OF JUSTICE

    ADDRESS 1: OFFICE OF COMPTROLLER, CONTROL DESK
    ADDRESS 2: 810 7TH STREET NW
    ADDRESS 3: ROOM 5303

         CITY: WASHINGTON                            STATE: DC ZIP CODE: 20531

                                                         STATUS CODE: A
  EFF START DATE: 08051994   EFF END DATE:            LAST PROC DATE: 10082009
```

Data Fields

1. Note: When establishing a D28 profile, if the user does not enter a note in the notepad, the system will automatically default to 'N' (for No) in the note field. To enter a note in the notepad, type 'Note' in the link to field and press F9-Interrupt. The 105 notepad screen will display. After creating the note, press F10-Save and then press F9-Interrupt to return to the D28 profile. The system will display a 'Y' (Yes) in the note field indicating a note is attached.
2. Agency: Enter the agency number of your agency as the grantee (recipient).
3. ID: Enter up to a 14-digit grantor identification number, as provided by the grantor organization. This number needs to be the same Grantor ID number as that entered on the D-47 screen.
4. Name: Enter the name of the organization from which your agency will receive the grant (grantor name).
5. Address 1: Enter the address of the grantor organization (Address 1).
6. Address 2: Enter Address 2 or leave blank.
7. Address 3: Enter Address 3 or leave blank.
8. City: Enter the city for the grantor address.
9. State: Enter the two-character state for the grantor address.
10. Zip Code: Enter up to a nine-digit zip code for the grantor address.

D47 Grant Number Profile

The D47 profile is an agency maintained profile that establishes the agency defined grant number and the associated title for grant reporting purposes. Agencies must use the D47 profile for federal grant accounting and reporting.

```
SD47 VER 2.0                    STATE OF OREGON                06/07/12 08:13
AM
LINK TO:                     GRANT NUMBER PROFILE
PROD


      AGENCY: 213 (MUST BE IN D02 AGENCY PROFILE)
GRANT NUMBER: 555000  TITLE: JUSTICE AND MENTAL HEALTH COURT
FISCAL YEAR END: 0930  DESC: JOSEPHINE COUNTY MENTAL HEALTH
GRANT PH BUDGET LEVEL IND: Y (Y OR N - CONTROL BUDGETS AT PHASE LEVEL)
  AGY BUD GRANT LEVEL IND: 1 (0=NO GRANT, 1=GRANT, 2=GRANT/PHASE)
GRANTOR ID: 930902048      CATEGORY: 16.745 GRANT TYPE: 01
 ADDRESS 1: US DEPARTMENT OF JUSTICE
 ADDRESS 2: 810 7TH STREET NW
 ADDRESS 3: ROOM 5303
      CITY: WASHINGTON                          STATE: DC ZIP CODE: 20531
AWARD DATE: 10012009        AWARD CONTRACT NO: 2009MOBX0036
STATE APPL ID:  13.620.3424          LOC REF NO:
MANAGER: FISCAL ANALYST
APPLICATION STATUS:    DUE DATE:         FINAL DECISION DATE:
GRANTORS GRANT NO: 2009-MO-BX-0036
```

Data Fields

1. Agency: Enter your agency number.

2. Grant number: Enter the grant number.

3. Title: Enter the title of the grant associated with the grant number.

4. Grant ph budget level ind: This indicator controls the posting of the phase to the grant, cash control, and cash balance financial tables. Enter a one character Y (Yes) or N (No) value. If an agency selects ‘Y’, the grant’s budget and cash balances will be controlled and posted at the phase level. The grant and phase code are both posted to the control key of the grant, cash control and cash balance financial tables. If an agency selects ‘N’, grant budget and cash control is at the grant level, and the agency must establish a 29 grant control profile with a phase of ‘00’. If the value of this indicator is ‘N’, SFMA posts the grant code and a blank phase code to the control key of the grant financial table.

5. Agy bud grant level ind: Enter the one-digit agency budget grant level indicator that identifies the level at which the grant is budgeted. Valid values are as follows:
   0 – No grant
   1 – Grant
   2 – Grant/Phase

6. Grantor ID: Enter up to a 14-digit grantor identification number. The grantor ID number must match the grantor ID number on the D28 grantor profile.

7. Category: Enter the CFDA number associated with the grant number. The CFDA number must be on the D40 grant category profile.

8. Grant Type: Enter the two-digit grant type code based on the type of federal grant. The grant type code must be on the D35 grant type profile.

9. Address 1: Enter address 1 for the grantor, up to 40 characters.

10. Address 2: Enter address 2 up to 40 characters.

11. Address 3: Enter address 3 up to 40 characters.

12. City: Enter the city for the grantor address, up to 30 characters.

13. State: Enter the two-character state for the grantor address.

14. Zip code: Enter up to a nine-digit zip code for the grantor address.

15. Award date: Enter an eight-digit award date. The date must be in standard MMDDYYYY format.

16. Award Contract Number: Enter the contract number for all grants that do not have a valid CFDA number. If the CFDA number is valid, then the award contract number may remain blank.

17. Loc Ref No: Optional.

18. Manager: Up to 60 characters (optional).

19. Application Status: 1 character; must be in D53 Table ID: GAST (optional).

20. Due Date: Use standard MMDDYYYY format (optional).

21. Final Decision Date: Use standard MMDDYYYY format (optional).

22. Grantors Grant No: Up to 15 character alpha-numeric field (optional).

029 Grant Control Profile

A series of indicators and data elements stored in the grant control profile control the grant cost accumulation and billing processes. Agencies maintain the 029 Grant Control Profile. Agencies must use the 029 profile for federal grant accounting and reporting.

```
S029 VER 2.0                       STATE OF OREGON             06/07/12 09:34 AM
 LINK TO:                        GRANT CONTROL PROFILE
PROD
 AGENCY: 213   GRANT NO/PH: 555000 09   AG CD 1:      GRANT TYPE: 01 (SYS-GEN)
  TITLE: JUSTICE & MENTAL HEALTH-JOSEPHINE…0036         GEOGRAPHIC CODE:
 SGL POST LEVEL IND: 2  LOC NO:                LOC AWARD: 10/1/09 - 03/31/12
 EXP POST LEVEL IND: 2  REV POST LEVEL IND: 2       GRANT CTL TYPE IND: 0
  CASH CTL POST IND: N   CASH CTL TYPE IND: 2 PROJ/PH:            AGY CD 2:
  SERV DATE CTL IND: N       GRANT OBJ IND:     CONTRACTOR/SFX:
 BILLING METHOD: 0      CYCLE: 0   MMDD: 1      2      3      4
 OBJECT RANGE -  LOW:    HIGH:     RATE:        LOW:   HIGH:    RATE:
             1                 00000.0000 2                    00000.0000
             3                 00000.0000 4                    00000.0000
             5                 00000.0000    CLEARANCE PATTERN:
 COMP GLA TO INCLUDE:
                          * * * * * * RECOVERY SEGMENT * * * * * *
  CUR DOC/SFX:              TC:       INDEX:          PCA:         AY:
 COMP/AGY OBJ:            FUND:        DESC:
      MP CODE:                AGY CD -  1:      2:      3:
 FINAL POST DATE:                     RTI:              SPEC PURGE IND: N
    STATE MATCH%: .00000  STATE MATCH AMT: 00000000000.00 STATUS CODE: A
```

Data Fields

1. Agency: Enter your agency number.

2. Grant no/ph: Enter the grant number, which is a required element (the grant number must be in the D47 profile). Enter the two-digit grant phase, if applicable. If the agency does not divide a grant into phases, enter zeroes (00).

3. Ag cd 1: An optional element; 4 digits assigned by the agency. It signifies another level in grant structure and agencies may use it for identifying different tasks or activities.

4. Title: Enter the title of the grant associated with the grant number.

5. Geographic code: Leave blank.

6. SGL post level ind (Summary general ledger post level indicator): Provides the ability to maintain a general ledger and inquire on balance sheet accounts within a grant/phase. Enter the desired level of posting using the one-digit code as follows: 0 – Do not post; 1 – Post grant only; 2 – Post grant and phase.

7. Loc No: Optional.

8. Loc Award No: Letter of credit award number up to 15 characters (optional or leave blank).

9. Exp post level ind (Expenditure object posting level indicator): This indicator determines the expenditure object and/or fund level at which the system posts transactions to the grant financial table. SFMA records all transactions at the lowest level of detail in the general ledger financial table. Agencies that use grant billable and expendable budgets must post them at the level of detail identified by this indicator. When budgets are not used, this indicator should be set at the level desired for on-line inquiry. Enter the applicable one-character code from the list below:

0 – No object
1 – Comptroller object (D10)
2 – Agency object (D11)
3 – Grant object
A – Fund, no object
B – Fund and comptroller object
C – Fund and agency object
D – Fund and grant object

10. Rev post level ind (Revenue object posting level): This indicator determines the revenue object and/or fund level at which SFMA posts transactions to the grant financial table. For example, if the value is '1' SFMA posts the comptroller object on the transaction to the control key grant financial table. Enter the applicable one-character code from the list below:
    0 – No object
    1 – Comptroller object (D10)
    2 – Agency object (D11)
    3 – Grant object
    A – Fund, no object
    B – Fund and comptroller object
    C – Fund and agency object
    D – Fund and grant object

11. Grant ctl type ind: Enter the desired one-digit grant control type indicator as follows:
    0 – None: expenditures exceeding the expendable budget will not cause an error message.
    1 – Absolute/Fatal: SFMA will not post expenditures greater than the expendable budget and will issue a fatal message.
    2 – Advisory/Warning: SFMA will post expenditures that exceed the expendable budget and will issue a warning message.

12. Cash ctl post ind: This indicator determines whether SFMA will use the grant structure to post to the cash control and cash balance financial tables. For example, a value of 'N' indicates that the grant on the cash control and cash balance financial tables will be blank (control is without regard to grant); whereas a value of 'Y' indicates that the grant will be posted to the cash control and cash balance financial tables. The D47 grant number profile grant phase budget level indicator determines whether SFMA posts the phase code. Enter the applicable one-digit cash control posting indicator as follows:
    Y – Yes, exercise cash control for the grant phase.
    N – No, do not have cash control for the grant phase.

13. Cash ctl type ind: Enter the desired one-digit cash control type indicator as follows:
    0 – None: expenditures exceeding the expendable budget will not cause an error message.
    1 – Absolute/Fatal: SFMA will not post expenditures greater than the expendable budget and will issue a fatal message.
    2 – Advisory/Warning: SFMA posts expenditures and encumbrances that exceed the expendable budget and will issue a warning message.

14. Proj/ph: Enter the project number or leave blank. The project number and phase associate a project/phase with the grant/phase. All budgetary, expenditure and revenue transactions recorded against this grant/phase will also post to the project table (and other tables) for the project/phase. This project number must also exist in the 27 project control profile if entered. Enter the two-digit project phase or leave blank. This is a required field if there is a project number entered.

15. Agy cd 2: Enter an agency code 2 indicator. This code must exist in the D27 agency code 2 profile.

16. Serv date ctl ind: Enter a one-character service date control indicator as follows:
    Y – Yes, service dates of transactions must occur prior to the final post date defined in this profile.
    N – No, SMFA does not control service dates based on the final post date.

17. Grant obj ind: The grant object indicator determines which range of objects on the grant object profile (D48) SFMA will use to post transactions to the grant financial table. This indicator is only required if agency object has been selected on the exp or rev post level indicators (options '3' or 'D'). Valid values include:

A – Agency object range only
B – Comptroller and agency object range
C – Comptroller object only
Blank – Field must be blank exp or rev post level indicators not set to ‘3’ or ‘D’.

18. Contractor/SFX: Enter the optional 10-character vendor id number and three-digit mail code of the primary contractor associated with this grant. If entered, the 51 statewide vendor profile or the 34 agency vendor profile must define the vendor number.

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	**Number:**	15.45.10
Division:	Chief Financial Office	**Effective Date:**	March 1, 2013
Chapter:	Accounting and Financial Reporting		
Part:	Interfund and Interagency Transactions		
Section:	Interfund Services, Reimbursements and Transfers		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for the following types of interfund or interagency transactions:

- Exchange or exchange-like transactions between funds/agencies involving payment for goods or services
- Reimbursement transactions between funds/agencies
- Transfers between funds/agencies

AUTHORITY: **ORS 293.590**
GASB Statement No. 14
GASB Statement No. 33
GASB Statement No. 34
GASB Statement No. 38

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: The following definitions apply to this policy.

(a) **Interfund transactions** occur between funds within an agency, while **interagency transactions** occur between two different agencies. Not all interfund and interagency transactions constitute transfers.

(b) Generally accepted accounting principles (GAAP) refer to sales and purchases of goods and services between funds for a price approximating their external exchange value as **interfund services provided and used.** Interfund services provided and used are further classified as **reciprocal interfund activity,** the internal counterpart to exchange and exchange-like transactions. This activity may occur between funds within an agency or between two different agencies.

(c) **Reimbursements** are those transactions that constitute repayments to a fund for expenditures or expenses initially made from it that should be charged to a different fund. Reimbursements are internal accounting adjustments used to reallocate expenditures/expenses. Consequently, they are not displayed on the financial statements. Reimbursements are classified as **nonreciprocal interfund activity**, the internal counterpart to nonexchange transactions. Reimbursements may also occur between funds within an agency or between two different agencies.

Click here for other **definitions**.

POLICY:

101. Agency management is responsible for ensuring that the agency's accounting and reporting for interfund and interagency transactions is appropriate.

102. All interfund and interagency transactions except loans, interfund services provided/used, and reimbursements are accounted for as transfers. Transfers should be classified separately from revenues and expenditures or expenses on the basic financial statements.

103. From a statewide perspective, all interagency transactions are equivalent to interfund transactions and should be treated that way for statewide financial reporting purposes in the **Comprehensive Annual Financial Report**. The financial statements for a given agency, however, should report these transactions as interagency transactions.

PROCEDURES:

Interfund Services Provided and Used

104. Interfund services provided and used are those transactions involving the sales of goods or services between funds that would be treated as revenues, expenditures, or expenses if they involved organizations that were external to the state. For example, internal service fund billings (i.e., DAS Central Services Fund) to agencies should be accounted for as revenues, expenditures, or expenses in the funds involved.

Example – Interfund services provided and used (between funds within an agency):

Assume that an *internal service fund* provided a *special revenue fund* with printing services. The *internal service fund* bills the *special revenue fund* for $1,000.

Step 1: Establish an accounts receivable in the *internal service fund*:

TC 103 in internal service fund

DR 0501 Accounts Receivable – Other Billed	1,000	
CR 3101 Revenue Control – Accrued (0407 Other Chgs for Svcs)		1,000

Step 2: Process a balanced transaction in the *special revenue fund* to pay for the service:

TC 730 (special revenue fund side of transaction)

DR 3500 Exp Control – Cash (4252 Publicity & Publications)	1,000	
CR 0070 Cash on Deposit with Treasurer		1,000

TC 731 (internal service fund side of transaction)

DR 0070 Cash on Deposit with Treasurer	1,000	
CR 3100 Revenue Control – Cash (0407 Other Chgs for Svcs)		1,000
DR 3101 Revenue Control – Accrued (0407 Other Chgs for Svcs)	1,000	
CR 0501 Accounts Receivable – Other Billed		1,000

105. The revenue and expenditure accounts indicate the reciprocal activity relationship. TC 722 and TC 723 are used if the fund providing the service is in a different agency and that agency does not establish or provide an accounts receivable number to liquidate. TC 730 and TC 731 are used if the fund providing the service is in a different agency and that agency establishes an accounts receivable and provides this information to the sending agency for liquidation of the accounts receivable. Any appropriate revenue account or services/supplies expenditure account may be used to record these types of transactions.

Reimbursement Transactions

106. GAAP define interfund reimbursements as "repayments from the funds responsible for particular expenditures or expenses to funds that initially paid for them." Interfund reimbursements are treated as an adjustment to expenses or expenditures; that is, an increase in expenditures or expenses in the reimbursing fund and a corresponding decrease in expenditures or expenses in the reimbursed fund. For example, an expenditure properly chargeable to a special revenue fund was initially paid by the general fund, which is subsequently reimbursed. This transaction is recorded as an expenditure in the special revenue fund (reimbursing fund) and as a reduction of the expenditure in general fund (the fund that is reimbursed). Allocation of overhead should be treated as a reimbursement rather than as interfund services provided and used.

Example – Reimbursement between funds within an agency:

The *general fund* has paid the entire $5,000 Attorney General (AG) invoice for the agency and the expenditure was recorded in the general fund. Legal fees of $1,000 were properly attributable to the *special revenue fund* and should have been recorded in that fund.

To move expenditures and cash between two funds within the agency:

TC 416 in general fund (where the expenditure was originally paid)

DR 0070 Cash on Deposit with Treasurer	1,000	
CR 3500 Expenditure Control – Cash (4550 AG legal fees)		1,000

TC 415 in special revenue fund (where the expenditure is budgeted)

DR 3500 Expenditure Control – Cash (4550 AG legal fees)	1,000	
CR 0070 Cash on Deposit with Treasurer		1,000

The net effect of these transactions is that the *general fund* will show expenditures for legal fees of $4,000 and the *special revenue fund* will have legal fee expenditures of $1,000. TC 416 must be processed with TC 415 as a balanced transaction.

Example – Reimbursement between agencies using a balanced transfer:

TC 740 (expenditure recorded by reimbursing agency)

DR 3500 Expenditure Control – Cash	1,000	
CR 0070 Cash on Deposit with Treasurer		1,000

TC 741 (reduction of expense recorded by agency receiving reimbursement)

DR 0070 Cash on Deposit with Treasurer	1,000	
CR 3500 Expenditure Control – Cash		1,000

Transfers

107. All interfund or interagency transactions except loans, interfund services provided and used, and reimbursements are transfers. Nonreciprocal interfund activity (analogous to nonexchange transactions) includes transfers as well as reimbursements (defined in .105 above).

108. Transfers must not be used to record transactions where there is an exchange of goods or services between state agencies (or funds) or between state agencies and entities outside the government.

109. Transfers are reported in the "Other Financing Sources (Uses)" section in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance and after the “Nonoperating Revenues (Expenses)” section in the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Assets. For government-wide reporting, transfers within each activity are eliminated and only amounts between governmental and business-type activities are presented.

110. For transfers between funds within an agency, the amounts in the two comptroller object accounts below must balance within an agency and within a fiscal year:

1301 Transfer In From Other Fund
1401 Transfer Out to Other Fund

111. For transfers of indirect cost moneys from a federal fund to some other fund within an agency, the two comptroller object accounts below must balance within an agency and within a fiscal year:

1356 Transfer In From Indirect Cost Center
1456 Transfer Out to Indirect Cost Center

112. For transfers from a general fund (appropriation) to another fund type within an agency, the two comptroller object accounts below must balance within an agency and within a fiscal year:

1303 Transfer In From General Fund
6200 Intra-agency General Fund/Other Fund Transfer

113. For transfers between agencies, the transfer in is recorded as a credit to a comptroller object that corresponds to GAAP source object 1400, Transfers from Other Funds (for governmental funds) or 1475, Transfers from Other Funds (for proprietary funds) in the D08 profile. The selected comptroller object must correspond to the applicable agency, based on the title of the comptroller object.

114. For transfers between agencies, the transfer out is recorded as a transfer out or as a special payment expenditure, depending on how it is budgeted. A transfer out is recorded as a debit to a comptroller object that corresponds to GAAP source object 1450, Transfers to Other Funds (for governmental funds) or 1476, Transfers to Other Funds (for proprietary funds) in the D08 profile.

115. A special payment expenditure is recorded as a debit to a comptroller object that corresponds to GAAP source object 6200, Special Payments to State Agencies (for governmental funds) or 6250, Special Payments to State Agencies (for proprietary funds) in the D08 profile. Both GAAP source object 6200 and 6250 are reported as Transfers to Other Funds in the fund financial statements. The comptroller object selected for individual transactions must correspond to the applicable agency, based on the title of the comptroller object.

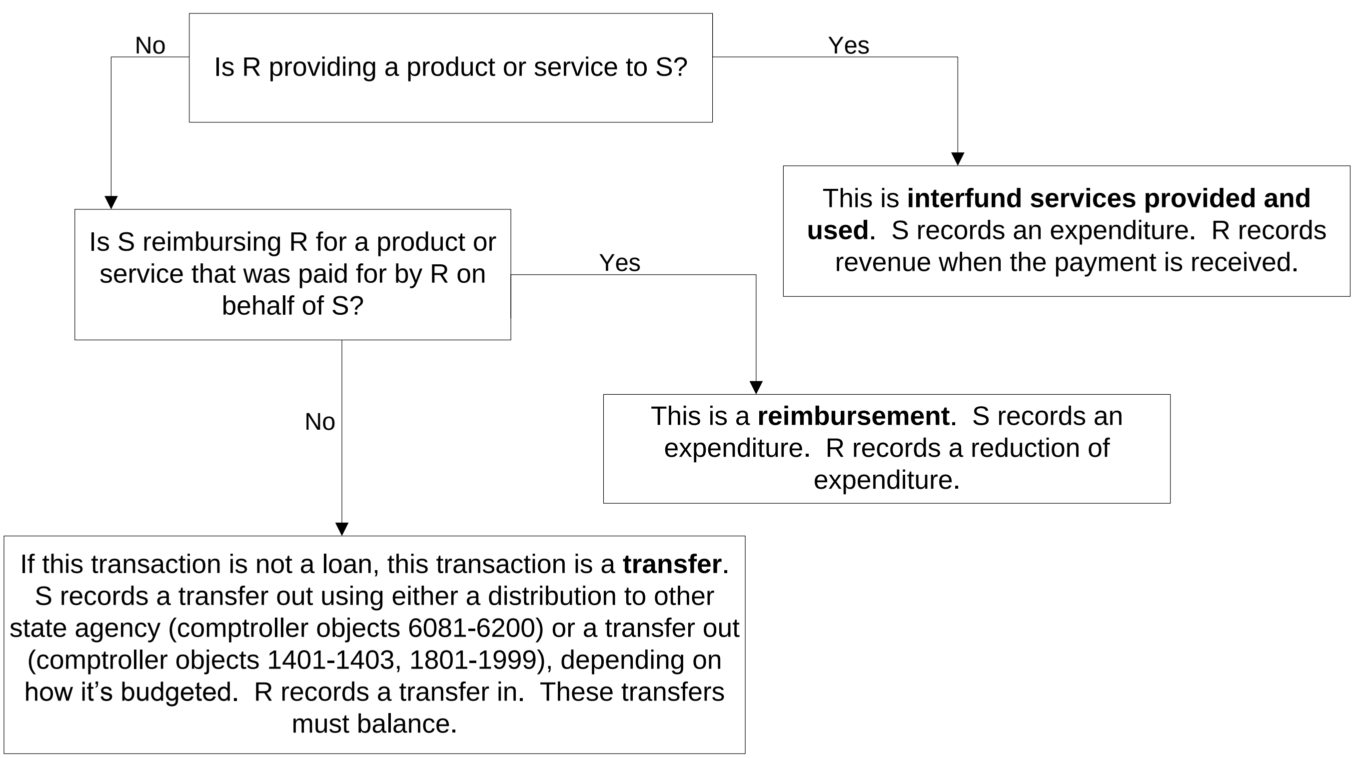
116. A transfer to a component unit from a state agency (not considered a transfer for financial reporting purposes) is recorded as a revenue transfer out with a debit to a comptroller object that corresponds to GAAP object 6380, Revenue Transfers Out, for governmental funds and 6385, Revenue Transfers Out, for proprietary funds. Discretely presented component units report a corresponding revenue. A distribution to a component unit (not considered a transfer for financial reporting purposes) is recorded as a debit to a comptroller object that corresponds to GAAP object 6100, Special Payments, for governmental funds and 6350, Special Payments, for proprietary funds in the D08 profile.

117. Transfers between agencies are recorded as balanced transactions to ensure transfers in agree to transfers out statewide within each fiscal year. The agency initiating the transaction has primary responsibility for coordinating with the other agency to ensure consistent reporting. Comptroller objects specific to each agency must be used.

118. If the receiving agency receives a transfer but does not believe the transaction should be recorded as a transfer, the receiving agency must contact the sending agency to discuss the situation. If an agreement cannot be reached between the agencies involved, the agencies should consult with the State Controller's Division, Statewide Accounting and Reporting Services staff to determine the proper treatment of the transaction.

119. The flowchart below highlights the key questions agencies need to answer when analyzing interfund and interagency transactions.

S = Fund in agency sending moneys **R = Fund in agency receiving moneys**



120. Because transfers between agencies represent cash transactions, the effective date of both sides of the transaction must always be equal to the current system date. *Cash transactions between agencies must not be back-dated.*

121. For transfers of capital assets from one fund or agency to another, see **OAM 15.60.10**.

122. The responsibility for determining fiscal year end accrual amounts between funds or agencies is as follows:

a. If an agency collects tax, license, or fee revenues that will be transferred to another agency, the collecting agency must determine the accrual amounts, the fiscal year, and the appropriation year, and advise the receiving agency.

b. For interagency grants and reimbursable contracts, the agency that receives the grant or provides the services must determine the unbilled amounts at June 30 and advise the grantor agency.

c. Transfer amounts are accrued using comptroller GL 0586, Due from Other Funds/Agencies, and comptroller GL 1532, Due to Other Funds/Agencies.

d. For interagency transactions, the eight-digit agency GL or G38 Code field must be completed by the initiating agency. The first three digits are the agency number of the other agency. The next four digits are the D23 fund of the other agency. The final digit is always zero.

e. Amounts receivable and payable between an agency and a discretely presented component unit must be reported separately and cannot be combined with accruals between funds of the primary government for financial reporting purposes (e.g., "Due to Component Unit").

Transfer Example Between Agencies

123. The Oregon Liquor Control Commission (OLCC) has the legal authorization to collect beer and wine taxes that later will be transferred to the Department of Human Services (DHS) to fund the Substance Abuse Prevention and Treatment program (D23 fund 3608). OLCC (D23 fund 0005) receives $10,000 that will be used to finance expenditures of DHS.

When the cash is received, OLCC uses **TC 190** to record:

DR 0065 Unreconciled Deposit	10,000	
CR 3100 Revenue Control – Cash (0124 Alcoholic Bev Tax)		10,000

When the cash is transferred, OLCC's uses **TC 720** to record:

DR 3550 Operating Transfers Out Control (1911 Trf Out to DHS)	10,000	
CR 0070 Cash on Deposit with Treasurer (G38 Code = 10036080)		10,000

When the cash is transferred, DHS uses **TC 721** to record:

DR 0070 Cash on Deposit with Treasurer	10,000	
CR 3150 Operating Transfers In Control (1388 Trf In from OLCC) (G38 Code = 84500050)		10,000

124. The OLCC initiates the transfer transaction with DHS as the financial agency on TC 721. OLCC notifies DHS that OLCC is recording the transaction as a transfer. (Note: TC 720 and TC 721 must be processed as a balanced transaction.) After TC 190 is processed, TC 332 is generated when the deposit is reconciled with State Treasury.

125. OLCC records revenue when it receives the cash because that agency is authorized to collect taxes on wine and beer. Thereafter, transfer accounts are used to show the cash flow between agencies.

Disclosure Requirements – Transfers

126. The notes to the financial statements include summarized information about transfers. Amounts transferred to and from other funds are shown by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type. Use of the G38 Code by agencies for all applicable transactions facilitates disclosure at this level of detail. A general description of the principal purposes of interfund transfers is also included in the notes to the financial statements. The intended purpose and the amount of significant transfers that do not occur on a routine basis and/or are inconsistent with the activities of the fund making the transfer must also be disclosed.

Agent Relationships

127. In the case of an agency that collects fees on behalf of another agency as a service to the other agency, and the collecting agency is not legally authorized to assess the fee, a pass-through relationship exists. In other words, one agency is acting as an “agent” on behalf of the other agency. These transactions do not represent transfers between agencies.

128. When an agent relationship exists between agencies or between a state agency and an outside entity, the revenue must be recorded in the agency with the legal authority to levy the tax or assess the fee (not in the agency that collects the moneys). An **agency fund** may be established to account for the collection (pass-through) activity, but agent-type activities need not be accounted for in an agency fund unless legally required. Where an agent relationship exists, the agency collecting moneys on behalf of another agency records cash and a deposit liability when the money is received and reduces both cash and the deposit liability when the money is turned over to the agency legally authorized to levy the tax or assess the fee. The agency authorized to levy the tax or assess the fee records cash and revenue when the money is received from the agency acting as its agent, just as if the agency had collected the revenue itself.

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT: Accounting and Reporting		**Number:** 15.45.20
DIVISION: Chief Financial Office		**Effective date:** June 1, 2012
Chapter: Accounting and Financial Reporting		
Part: Interfund and Interagency Transactions		
Section: Advances Between Funds/Agencies		
APPROVED: George Naughton, Chief Financial Officer		Signature on file

PURPOSE: This policy provides guidance on accounting and financial reporting for advances between funds or agencies according to **generally accepted accounting principles (GAAP)**, including applicable disclosure requirements.

AUTHORITY:
ORS 293.590
NCGA Statement No. 1
GASB Statement No. 14
GASB Statement No. 34
GASB Statement No. 38
GASB Statement No. 54

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

DEFINITION: **Advances:** Long-term loans from one fund or agency to another fund or agency with a requirement for repayment.

POLICY:

101. Agency management must ensure the proper accounting and reporting of advances between funds within their own agency or between their agency and another agency.

102. From a statewide perspective, all interagency transactions are equivalent to interfund transactions and Statewide Accounting and Reporting Services (SARS) reports them as such for statewide financial reporting purposes in the **Comprehensive Annual Financial Report**. Agencies, however, should report these transactions as interagency transactions in their own financial statements.

103. Report advances as interfund receivables in lender funds and interfund payables in borrower funds, regardless of fund type. Agencies that do not expect repayment of the advance to occur within a reasonable time must eliminate the remaining interfund balances and record the advance as a transfer from the fund that made the loan to the fund that received the loan.

104. Do not record transactions related to charges for goods and services between funds as advances. (See **interfund services provided and used** in **OAM 15.45.10**.) Account for short-

term receivables and payables between funds or agencies as “due to” or “due from” other funds/agencies rather than as advances.

105. Advances to other funds/agencies must balance with offsetting advances from other funds/agencies accounts.

PROCEDURES:

106. Unlike the other long-term liabilities of **governmental funds** (which agencies generally record in the **government-wide reporting fund**), report advances within the governmental funds.

107. Use the Agency GL to cross-reference the agency and D23 fund of the *Advance to Other Fund/Agency* (GL account 0950) to the agency and D23 fund of the *Advance from Other Fund/Agency* (GL account 1800). The format of the Agency GL number is AAAFFFF0, where A equals the agency number and F equals the D23 fund number. The last digit is always a zero and is simply a placeholder.

108. Because advances are balance sheet only transactions, eliminate the revenues (loan repayments) and expenses (loans made) associated with advances for financial reporting purposes. The transaction codes used to record advances include GAAP offset accounts, which allow revenues and expenditures to be properly reported for budgetary purposes, but eliminate revenues and expenditures for financial reporting purposes.

109. The entries below illustrate how to set up an advance and record subsequent repayments. The sample transactions apply to all fund types.

Assume Agency 111 sends $50,000 from D23 fund 4567 to Agency 222 as an advance. Agency 222 records the advance in D23 fund 6321.

T-code 722: Agency 111 records the cash advanced to Agency 222, using comptroller object 6870 – Loans to State Agencies.

DR 3500 Expenditure Control-Cash (C/O 6870)	$50,000	
CR 0070 Cash on Deposit with Treasurer		$50,000

T-code 723: Agency 222 records the cash received from Agency 111, using comptroller object 1600 – Loan Proceeds.

DR 0070 Cash on Deposit with Treasurer	$50,000	
CR 3100 Revenue Control - Cash (C/O 1600)		$50,000

T-code 446: Agency 111 records an asset for the loan to Agency 222, offsetting comptroller object 6870 – Loans to State Agencies.

DR 0950 Advances to Other Funds/Agencies	$50,000	
CR 3600 GAAP Expenditure Offset (C/O 6870) (Agency GL 22263210)		$50,000

T-code 448: Agency 222 records a liability for the loan from Agency 111, offsetting comptroller object 1600 – Loan Proceeds.

DR 3200 GAAP Revenue Offset (C/O 1600)	$50,000	
CR 1800 Advances from Other Funds/Agencies (Agency GL 11145670)		$50,000

Now, assume that Agency 222 makes its first repayment of $5,500 of principal and interest.

T-code 722: To record the cash sent by Agency 222 to Agency 111, using comptroller objects 7200 – Principal-Loans and 7400 – Interest-Loans.

DR 3500 Expenditure Control-Cash (C/O 7200 Principal)	$5,000	
DR 3500 Expenditure Control-Cash (C/O 7400 Interest)	$ 500	
CR 0070 Cash on Deposit with Treasurer		$5,500

T-code 723: To record the cash received by Agency 111, using comptroller objects 1104 – Other Loan Repayments and 0800 – Interest on Investments

DR 0070 Cash on Deposit with Treasurer	$5,500	
CR 3100 Revenue Control - Cash (C/O 1104 Repayments)		$5,000
CR 3100 Revenue Control - Cash (C/O 0800 Interest)		$ 500

T-code 447: Agency 111 reduces the asset balance for the principal received, offsetting comptroller object 1104 – Other Loan Repayments.

DR 3200 GAAP Revenue Offset (C/O 1104)	$5,000	
CR 0950 Advances to Other Funds/Agencies (Agency GL 22263210)		$5,000

T-code 449: Agency 222 reduces its liability for the principal repaid, offsetting comptroller object 7200 – Principal-Loans.

DR 1800 Advances from Other Funds/Agencies	$5,000	
CR 3600 GAAP Expenditure Offset (C/O 7200) (Agency GL 11145670)		$5,000

Advance to Other Fund Recorded in the General Fund

110. In the GAAP General Fund only (GAAP Fund 0001), a nonspendable fund balance applies in certain circumstances. If the loan repayments are not restricted, committed, or assigned to a specific purpose, classify the fund balance related to the *Advance to Other Fund/Agencies* (GL account 0950) as nonspendable.

111. Assume Agency 111 sent the $50,000 advance from D23 fund 8001, a fund within GAAP Fund 0001, to D23 fund 6321 in Agency 222. Assume further that the loan repayments received by Agency 111 are not restricted, committed, or assigned to a specific purpose. Rather than using T-code 446 to record the asset, Agency 111 uses T-code 486.

T-Code 486: Agency 111 records the advance to Agency 222 and the related nonspendable fund balance, using comptroller object 6870 – Loans to State Agencies.

DR 0950 Advances to Other Funds/Agencies	$50,000	
DR 3075 Change in Reserves	$50,000	
CR 3035 Nonspend Fund Bal - Adv to Other Funds/Agencies		$50,000
CR 3600 GAAP Expenditure Offset (C/O 6870)		$50,000
(Agency GL 22263210)		

When Agency 111 receives repayments, it uses T-code 472 (rather than T-code 447) to reduce the advance to Agency 222 and the related nonspendable fund balance.

T-code 472: Agency 111 reduces the asset balance for the principal received, offsetting comptroller object 1104 – Other Loan Repayments.

DR 3035 Nonspend Fund Bal - Adv to Oth Funds/Agencies	$5,000	
DR 3200 GAAP Revenue Offset (C/O1104)	$5,000	
CR 0950 Advances to Other Funds/Agencies		$5,000
CR 3075 Change in Reserves		$5,000
(Agency GL 22263210)		

Agency 222 uses Agency GL 11180010 for its side of the transactions.

Fiscal Year-End

112. At fiscal year end, agencies accrue any interest owed at June 30. The lending agency accrues interest revenue and establishes a receivable and the borrowing agency accrues interest expense or expenditure and establishes a payable.

113. For advances between agencies, both agencies must verify that the recorded loan balances agree at year-end and accrue the same amount of interest receivable and payable.

Financial Reporting

114. Advances within governmental funds and within business-type activities are eliminated at the government-wide reporting level, leaving only the residual balances due between governmental and business-type activities.

115. Advances to/from fiduciary funds are reported as receivables from or payables to external parties in the government-wide statement of net assets.

116. The governmental and proprietary funds balance sheets, as well as the government-wide statement of net assets, distinguish interfund balances related to discretely presented component units as advances to/from component units.

117. Operating statements prepared on the budgetary basis reflect all loan revenue and loan expenditure activity. However, operating statements prepared on the GAAP basis reflect only interest income and interest expense because GAAP offsets eliminate the effects of loan activity in the operating statements.

Disclosure Requirements

118. Notes to the financial statements disclose advances due to/from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund types. Agencies use the Agency GL field for all applicable transactions to facilitate disclosure at this level of detail.

119. The notes to the financial statements also include a description of the purpose for interfund advances, as well any advances that agencies do not expect to repay within one year from the date of the financial statements.

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT: Accounting and Reporting		**Number:** 15.45.30
DIVISION: Chief Financial Office		**Effective date**: July 1, 2013
Chapter: Accounting and Financial Reporting		
Part: Interfund and Interagency Transactions		
Section: Lottery		
APPROVED: George Naughton, Chief Financial Officer		Signature on file

PURPOSE: This policy provides guidance on accounting and financial reporting for lottery moneys.

AUTHORITY:
ORS 291.015
ORS 293.130
ORS 293.265
ORS 293.590
ORS 461.020
ORS 461.180
ORS 461.500 - 461.540

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: **Lottery Revenue –** money received by the Oregon State Lottery (OSL) for the sale of tickets and games. By law, OSL must return at least 84 percent of total annual revenues to the public; of that, at least 50 percent must be in the form of prizes and OSL must use the remainder for the public purposes authorized by voters and set forth in the Oregon Constitution. OSL may use no more than 16 percent of total annual revenues for administrative expenses.

Click here for other **definitions**.

POLICY:

101. Agency management must ensure the proper accounting and reporting of lottery moneys received by their agency. Agencies must account for transactions related to lottery moneys in accordance with generally accepted accounting principles.

PROCEDURE:

102. The State Lottery Fund shall receive all proceeds from the sale of lottery tickets or shares, and all other moneys credited to the Oregon State Lottery from any other lottery related source.

103. ORS 461.540 establishes the Administrative Services Economic Development Fund (DASEDF) in the legal general fund. All lottery revenues transferred from the State Lottery Fund, available

to benefit the public purposes as specified by law, that are in excess of distributions or allocations required by law, shall be held in the DASEDF.

104. The Department of Administrative Services, Chief Financial Office (CFO) will prepare an **allocation plan** on a quarterly basis for the **biennium** in accordance with current law specifying the amounts that the legislature allocated to each program from the DASEDF. CFO prepares the allocation plan based on anticipated revenues.

105. When CFO prepares the quarterly allocation plan, allocations will be one eighth of the biennial allocation amount, assuming no revenue shortfalls will occur.

106. Based on the actual quarterly revenue transfer from the Oregon State Lottery, CFO prepares a quarterly **allocation schedule** to distribute the appropriate balances from the DASEDF to various agencies and programs in accordance with current law.

107. Department of Administrative Services, Shared Financial Services (SFS) will distribute the lottery proceeds to recipient agencies based on the quarterly allocation from CFO, within four business days after receipt of funds from the Oregon State Lottery.

108. CFO procedures for the distributions take into account potential shortfalls. If in any quarter, the moneys transferred from the State Lottery Fund to the DASEDF are insufficient to distribute the quarterly allocation, CFO will satisfy debt service obligations and then reduce the remaining allocations proportionately in sufficient amounts to accommodate the revenue shortfall.

109. CFO allocates interest earned on moneys deposited in the DASEDF, and any moneys returned to the DASEDF, in the next quarterly allocation schedule.

110. The receiving agency will expend lottery moneys and related interest earnings only for the purposes of the authorized program and in accordance with constitutional and statutory requirements.

111. Agencies will deposit all lottery funds in State Treasury accounts that earn interest. By statute, lottery funds are part of the legal general fund. However, statutes require that interest earned on lottery funds accrue to the account in which the agency deposits the funds. Therefore, Treasury does not deposit lottery funds to Treasury fund 0401, the treasury general fund.

112. SFS will request the State Treasurer to set up any Treasury accounts authorized by law for the deposit of lottery fund allocations.

113. Agencies will return unexpended moneys, including unexpended interest earnings, to the DASEDF upon completion of the program or project for which they received the lottery funds.

114. The receiving agency will record the receipt of lottery fund proceeds in a separate accounting fund for tracking purposes. A balanced transfer is used to move lottery proceeds between agencies:

TC 720: To record transfer to other funds/agencies

DR 3550 Operating Transfers Out (CO 180X Transfer Out to State Agency)	xxx	
CR 0070 Cash on Deposit with Treasurer		xxx
Requires use of an appropriate G38 code		

TC 721: To record transfer from other funds/agencies

DR 0070 Cash on Deposit with Treasurer xxx
CR 3150 Operating Transfers In (CO 1306 Transfer In from DAS) xxx
Requires use of an appropriate G38 code

115. GAAP require recognition of transfers in the accounting period in which the interfund receivable and payable arise. Accordingly, at fiscal year end, SFS will record accruals for amounts due to agencies and agencies will record accruals for amounts due from the DASEDF for distributions related to the quarter ended June 30. These accruals will be coordinated through SFS and will balance statewide. The amount due an agency from the DASEDF is entered in R*STARS with the following balanced entries:

TC 919: To record the distribution due an agency from the DASEDF at June 30 (auto reverses)

DR 3550 Operating Transfers Out Control (CO 180X Transfer Out to State Agy) xxx
CR 1532 Due To Other Funds/Agencies xxx
Requires an Agency General Ledger account and G38 code

TC 920: To record the lottery distribution due from DASEDF at June 30 (auto reverses)

DR 0586 Due From Other Funds/Agencies xxx
CR 3150 Operating Transfers In Control (CO 1306 Transfer in from DAS) xxx
Requires an Agency General Ledger account and G38 code

116. Moneys associated with lottery fund two-year expired warrants remain in treasury fund 0539, which is part of the legal general fund. For this reason, SFMS Operations reports lottery two-year warrant expirations to the Department of State Lands and records a deposit liability in D23 fund 0539.

DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL			
SUBJECT:	Accounting and Reporting	**Number:**	15.50.00
DIVISION:	Chief Financial Office	**Effective date**:	July 1, 2011
Chapter:	Accounting and Financial Reporting		
Part:	Inventories		
Section:			
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for inventories.

AUTHORITY: **ORS 293.590**
NCGA Statement No. 1
GASB Statement No. 34
GASB Statement No. 54

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

DEFINITIONS: **Inventories** generally consist of materials and supplies on hand for future consumption. Inventories may also include goods held for resale.

Under the **purchases method** of accounting for inventory, inventory is recorded as an expenditure when the items are purchased. Significant amounts of inventory on hand at yearend must be reported as an asset on the balance sheet.

Under the **consumption method** of accounting for inventory, inventory is recorded as an asset when purchased and the recognition of an expense is deferred until the period the inventory is actually used.

POLICY:

101. Agency management is responsible for the proper accounting and reporting of inventories.

102. Agencies must conduct an annual physical inventory of all significant materials, supplies, and goods held for resale. A record of the physical inventory must be maintained. Significant discrepancies between the physical inventory and the agency's accounting records must be investigated and documented for audit purposes.

103. Upon completion of the physical inventory, agencies must adjust the general ledger to reflect the value of the inventories on hand using the first in, first out (FIFO) costing method. The computations to value inventory must be retained for audit purposes.

PROCEDURES:

Governmental Funds

104. In governmental funds, account for materials and supplies inventories using the purchases method. Report significant amounts of inventories on hand at fiscal yearend in governmental funds as an asset, offset by nonspendable fund balance.

105. If the proceeds from the sale of inventories held for resale are restricted, committed, or assigned to a specific purpose, do not offset this inventory account by nonspendable fund balance. Instead, report the related fund balance in the applicable fund balance classification (see OAM 15.85.00).

106. Account for materials and supplies on hand for future consumption in GL 0600 – Inventories-Materials and Supplies. Account for inventories held for resale in GL 0601 – Inventories-Stores for Resale.

107. Use transaction code 502 to record and adjust inventories in a governmental fund.

TC 502: To adjust inventories of materials and supplies and inventories held for resale (where the sales proceeds are not restricted, committed, or assigned to a specific purpose) using comptroller object 7500 – Increase/Decrease in Governmental Inventories.

DR 0600 Inventories-Materials and Supplies	2,000	
or 0601 Inventories-Stores Held for Resale		
DR 3075 Change in Reserves	2,000	
CR 3031 Nonspendable FB-Inventory		2,000
CR 3600 GAAP Expenditure Offset (C/O 7500)		2,000

108. Use transaction code 500 in a governmental fund *only* in the following situation.

TC 500: To adjust inventories held for resale (where the sales proceeds are restricted, committed or assigned to a specific purpose) using the same comptroller object used to record the initial purchase.

DR 0601 Inventories-Stores Held for Resale	2,000	
CR 3600 GAAP Expenditure Offset (C/O XXXX)		2,000

Proprietary Funds

109. In proprietary funds, account for inventories using the consumption method.

110. Use transaction code 500 to record and adjust inventories in a proprietary fund.

TC 500: To adjust inventories held for resale (where proceeds are restricted, committed or assigned) using the same comptroller object used to record the initial purchase.

DR 0600 Inventories-Materials and Supplies	2,000	
or 0601 Inventories-Stores Held for Resale		
CR 3600 GAAP Expenditure Offset (C/O XXXX)		2,000

Physical Inventories

111. Conduct a physical inventory at least annually of supplies held for resale or used in production to verify their existence and the quantity on hand. For office supplies, conduct an annual physical inventory only if the dollar amount of the inventory is significant. Investigate significant discrepancies between the physical count and the agency’s accounting records, document the reasons, and take corrective action. For audit purposes, retain documentation in the agency's central accounting office of the results and location of all physical inventories taken.

112. Upon completion of the physical inventory, adjust the general ledger to reflect the cost of the inventories on hand using the FIFO costing method. If inventories vary significantly over time, prepare a worksheet to analyze the change between the physical inventory date and June 30 and adjust the accounting records to reflect the estimated change. For audit purposes, retain all costing documentation to substantiate the inventory values reported at June 30.

Perpetual Inventory Systems

113. If a perpetual inventory system is used, at a minimum, maintain the following records:

    - Quantity on hand
    - Quantity received
    - Invoice unit price
    - Vendor
    - Date received
    - Quantity issued
    - Date issued
    - Requisition number

    Update the inventory records daily. Do not receive or dispense inventory in the stock room unless documented in writing, with a copy retained as part of the agency's records. If an electronic authorization is used, retain the records for audit purposes.

OREGON ACCOUNTING MANUAL

<table>
<tr><td rowspan="2">DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

STATEWIDE POLICY</td><td>NUMBER
15.51.00</td><td>SUPERSEDES
N/A – No prior policy</td></tr>
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Chief Financial Office</td><td colspan="2" rowspan="2">REFERENCE/AUTHORITY

ORS 291.040
ORS 293.590
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GASB Codification 2600
GASB Statement No. 62, paragraph 174(g)</td></tr>
<tr><td>Policy Owner
Statewide Accounting and Reporting Services (SARS)</td></tr>
<tr><td>SUBJECT
Accounting and Financial Reporting – Outstanding Balances with Component Units</td><td colspan="2">APPROVED SIGNATURE

George Naughton, Chief Financial Officer
Signature on file</td></tr>
</table>

PURPOSE: This policy provides guidance on accounting and financial reporting related to receivables from, and payables to, the State's component units.

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: **Component Unit**: A legally separate organization for which the elected officials of the primary government are financially accountable.

Discretely Presented: The method of reporting financial data of **component units** in columns and rows separate from the financial data of the primary government.

Click here for other **definitions**.

POLICY:

101. Agency management must ensure the proper accounting and financial reporting of receivables from, and payables to, (collectively referred to as "outstanding balances") the State's **component units** (CUs).

102. **Generally Accepted Accounting Principles** (**GAAP**) requires outstanding balances between the primary government (i.e. state agencies) and CUs be reported separately from other receivables and payables.

103. Agencies must include all outstanding balances with all CUs in their accounting records, this OAM only provides direction as to which accounts report the outstanding balances with CUs.

104. The following are included in the **State Comprehensive Annual Financial Report** (CAFR) as component units, all of which are **discretely presented**:

a. Agency 435 – SAIF Corporation (12/31 fiscal year end)

b. Agency 590 – Oregon Health & Science University (6/30 fiscal year end)

c. Agency 591 – University of Oregon (6/30 fiscal year end)

d. Agency 592 – Oregon State University (6/30 fiscal year end)

e. Agency 593 – Portland State University (6/30 fiscal year end)

f. Agency 594 – Western Oregon University (6/30 fiscal year end)

g. Agency 595 – Southern Oregon University (6/30 fiscal year end)

h. Agency 596 – Eastern Oregon University (6/30 fiscal year end)

i. Agency 597 – Oregon Institute of Technology (6/30 fiscal year end)

j. Agency 625 – State Fair Council (12/31 fiscal year end)

k. Agency 913 – Oregon Affordable Housing Assistance Corporation (12/31 fiscal year end)

105. Agencies must use the following general ledger (GL) accounts in **R*STARS**, to report outstanding balances with component units, applying the requirements of paragraphs 112 through 115.

a. GL 0587 – Due from Component Units. This represents the moneys the agency expects to receive from the CU within one year.

b. GL 0951 – Advances to Component Units. This represents the moneys the agency expects to receive from the CU beyond one year.

c. GL 1533 – Due to Component Units. This represents the moneys the agency expects to pay the CU within one year.

d. GL 1805 – Advances from Component Units. This represents the moneys the agency expects to pay the CU beyond one year.

Agencies not using R*STARS should report these types of receivables and payables similarly in their accounting system.

PROCEDURES:

Loan agreements with CUs – applies to governmental funds and proprietary funds

Record original balances

106. Upon execution of a loan agreement with a CU, the agency must establish the receivable in **R*STARS**. If the loan proceeds are available to the CU only upon state agency approval of a qualifying expenditure, a liability to the CU must also be established.

As an example, if an agency enters into an agreement to loan a CU $1,000,000, and the agency must approve the CU expenditures prior to reimbursing the CU, use the following to record the entry:

TC 458: To record the loan as a receivable from the CU.

DR 0951 Advances to Component Units	1,000,000	
CR 3600 GAAP Expenditure Offset (6875 Loans Made - Other)		1,000,000

TC 458R: To record an advance from CU for the undistributed proceeds

DR 3600 GAAP Expenditure Offset (6875 Loans Made – Other)	1,000,000	
CR 1805 Advances from Component Units		1,000,000

107. In a loan agreement between an agency and a CU, there are no premiums, discounts, or deferred gains or losses on refunding directly associated with the loan arrangement. If the agency or CU issue debt to provide funding for the loan agreement, and the issued debt has premiums, discounts, or deferred gains or losses on refunding, they remain with the related debt, not the loan agreement. See **OAM 15.65.10** *Bonds and COPs* and **OAM 15.65.30** *Debt Refunding* for guidance pertaining to the debt.

a. If there is a difference between moneys provided to a CU pursuant with a loan agreement, and the loan agreement itself (likely because there is a premium or discount related to a debt issued to fund the loan), that difference is recognized as a revenue or expense in the period in which the loan agreement is executed.

Expanding upon the example from paragraph 106, if the agency obligated itself to provide an additional $15,000 to the CU related to the proceeds from a premium received on the related debt offering, it would record the transaction as follows:

TC 458R: To record an advance from CU for the undistributed proceeds

DR 3600 GAAP Expenditure Offset (645X Dist. to CU)	15,000	
CR 1805 Advances from Component Units		15,000

***Note**: Using the same scenario, except there is a discount on the underlying debt offering rather than a premium, the agency shall record a one-time revenue using TC 473 (GL 0951 Advances to Component Units and C/O 1105 Other Revenue)*

Record distributions to CU and reduce amount owed to CU

108. Continuing the example started in paragraph 106, the CU has incurred $200,000 in qualifying expenditures and the agency is prepared to reimburse the CU, record the transaction as follows:

TC 222: To record payable to CU

DR 3501 Expenditure Control Accrued (6875 Loans Made – Other)	200,000	
CR 1211 Voucher Payable		200,000

TC 458: To reduce the advance from CU.

DR 1805 Advances from Component Units	200,000	
CR 3600 GAAP Expenditure Offset (6875 Loans Made - Other)		200,000

Record principal and interest receipts from CU and reduce advance to CU

109. Next in the example, the CU makes an $85,000 payment on the loan, with $25,000 representing principal and $60,000 representing interest. Record the transaction as follows:

TC 190: To record principal portion of receipt from CU

DR 0065 Unreconciled Deposit	25,000	
CR 3100 Revenue Control – Cash (1104 Other Loan Repayment)		25,000

TC 190: To record interest portion of receipt from CU

DR 0065 Unreconciled Deposit	60,000	
CR 3100 Revenue Control – Cash (0801 Interest on Program Loans)		60,000

TC 473R: To reduce the advance to CU

DR 3200 GAAP Revenue Offset (1104 Other Loan Repayment)	25,000	
CR 0951 Advances to Component Units		25,000

Record current portions of advance to and from CU

110. To continue the example, at year-end, the agency needs to reclassify both the amount expected to be received from the CU within the next 12 months and the amount expected to be paid to the CU within the next 12 months as a current asset and current liability, respectively. The current portion of the asset should be based on the repayment schedule (assumed to be $30,000), while the current portion of the liability should be based on an estimate provided by the CU (assumed to be the remaining balance of $800,000).

TC 474: To record the current portion of the receivable from the CU ($30,000)

DR 0587 Due from Component Units	30,000	
CR 2951 System Clearing General Ledger Level Only		30,000

TC 474R: To reduce the noncurrent portion of the receivable from the CU ($30,000)

DR 2951 System Clearing General Ledger Level Only	30,000	
CR 0951 Advances to Component Units		30,000

TC 475: To record the current portion of the payable to the CU ($800,000)

DR 2951 System Clearing General Ledger Level Only	800,000	
CR 1533 Due to Component Units		800,000

TC 475R: To reduce the noncurrent portion of the payable to the CU ($800,000)

DR 1805 Advances from Component Units	800,000	
CR 2951 System Clearing General Ledger Level Only		800,000

Accrue interest receivable on advance to CU

111. At year-end the agency will need to accrue an interest receivable equal to the amount of interest attributable to the period beginning the day after the last interest receipt and June 30. The interest accrual period shall be based on the loan agreement, not the underlying debt issue, if any. Therefore, to finalize the example, if the most recent interest receipt was April 30, and the next interest receipt is $55,000, due August 31, the interest accrual would be $27,500 (2/4 * $55,000).

TC 436: To accrue an interest receivable on an advance to CU

DR 0587 Due from Component Units	27,500	
CR 3105 Revenue Control – F/S Accrual (0801 Int. on Program Loan)		27,500

TC 436 will auto-reverse with TC 981.

Year-end Reporting of Outstanding Balances with CUs

112. For purposes of recording the balance in the accounting system, completing the agency disclosure, and confirming with CUs, outstanding balances with CUs should be grouped in a reasonable manner consistent with the nature of the transaction resulting in the balance, be that by program, location, purpose, etc.

113. The following types of balances are to be excluded from the grouping process, and therefore are not to be reported as an outstanding balance with a CU, regardless of the dollar amount:

a. Retirement plan contributions.

b. Other postemployment benefit plan contributions.

c. Payroll tax related liabilities, such as state income tax withholding and unemployment assessments.

114. Once agencies have grouped their outstanding balances with CUs in a manner consistent with paragraphs 112 and 113, they shall apply a minimum threshold (“floor”) of $100,000 to each grouping. If the grouping is in excess of the floor, the agency shall reclassify the outstanding balance and report it as an outstanding balance with a CU, in a manner consistent with paragraph 105. If the balance is less than $100,000, the agency shall review the exceptions (discussed in paragraph 115). If an exception does not apply, the agency shall not reclassify the balance in its accounting system to report the balance as outstanding with a CU, but rather in a manner consistent with balances outstanding with non-CUs.

For agencies using **R*STARS**, to reclassify the outstanding balances to these GL accounts, agencies should use TCs 474, 474R, 475, and 475R, as applicable. These TCs do not auto-reverse, so agencies will need to manually reverse these reclassifications in the subsequent fiscal year.

115. The $100,000 floor described in paragraph 114 does not apply to the following types of balances:

a. Undistributed bond/COP proceeds owed to a CU; and

b. The principal and interest balances of receivables from a CU pursuant to a loan agreement, such as small energy loan program and certain debt management agreements between the State and university CUs.

Therefore, agencies would continue to report these as outstanding balances with CUs, consistent with paragraph 105, even if the balance was below the $100,000 floor.

116. Agencies shall submit to SARS, as part of its agency disclosure packet, a document detailing the outstanding balances, based on their grouping, as discussed in paragraphs 112 through 115. For those agencies using **R*STARS**, the amounts on the agency disclosure must agree to the applicable general ledger accounts described in paragraph 105.

Confirming Outstanding Balances with CUs

117. Agencies must confirm the outstanding balances groupings (as determined in paragraphs 112 through 115) directly with those CUs with a 6/30 fiscal year end (as identified in paragraph 104) to ensure that both agree to the amount outstanding and its status as current or noncurrent (i.e. long-term). The confirmation must be documented as part of the agency disclosure packet referenced in paragraph 116, which is submitted to SARS. CU contacts shall be maintained by SARS on the CAFR Contacts List, and be made available on the SARS website.

118. After confirming the outstanding balances with the CUs, agencies may need to create a new grouping, add to an existing grouping, or deduct from an existing grouping. After the confirmation with the CU, agencies must apply the requirements of paragraphs 112 through 115 to their new or adjusted groupings.

119. If there is any disagreement between the agency and CU about the outstanding balance, SARS should be contacted for resolution.

120. Confirmation with CUs that have a 12/31 fiscal year end (as noted in paragraph 104) is not necessary. However, all other aspects of this OAM and the agency disclosure form must be completed.

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	**Number:**	15.55.00
Division:	Chief Financial Office	**Effective date:**	July 1, 2013
Chapter:	Accounting and Financial Reporting		
Part:	Non-Capital Assets		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting for non-capital assets, including non-capital intangible assets.

AUTHORITY: **ORS 293.590**

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except those agencies specifically exempted by **OAM 01.05.00**.

DEFINITION: **Non-capital assets:** Tangible or intangible property used in agency operations having an initial estimated useful life of one year or more and an initial cost (including **ancillary charges**) of less than $5,000. Examples of tangible non-capital assets: cell phones, calculators, laptop computers, firearms, and software. Examples of intangible non-capital assets: easements, water or mineral rights, trademarks, patents and software.

Click here for other **definitions.**

POLICY:

101. Agency management must ensure the proper accounting and reporting of non-capital assets and establish a system of internal control that reduces the risk of theft or other loss.

102. Record non-capital assets as expenditures or expenses. Do not record them in the capital asset general ledger (GL) accounts.

103. When disposing of surplus non-capital assets, contact the Department of Administrative Services (DAS), State Surplus Property Program for instructions.

104. In addition to this policy, **Statewide IT Policy 107-004-010**, *Information Technology Asset Inventory and Management*, applies to *all* IT assets (including non-capital IT assets).

PROCEDURES:

105. When an agency acquires a non-capital asset, record it as an expenditure in governmental funds or an expense in proprietary and fiduciary funds. Charge the non-capital asset to the services and supplies comptroller object that best matches the nature of the asset acquired.

106. Statewide IT Policy 107-004-010 requires agencies to tag non-capital IT assets and to maintain an inventory. Agencies may use their subsidiary property ledgers to establish the inventory.

107. Statewide IT Policy 107-004-010 also requires agencies to conduct an annual physical inventory.

108. Agencies are encouraged to apply the internal control measures discussed in paragraphs 106 and 107 to other non-capital assets at high risk of loss:

- Computers and electronic equipment
- Photography equipment
- Firearms
- Hand tools
- Any non-capital assets assigned to employees, contractors, and volunteers

109. When disposing of surplus non-capital assets, follow the guidelines established by DAS, State Surplus Property Program unit. Use the form designated by the State Surplus Property Program to facilitate the disposal. The form will serve as documentation of the removal of non-capital assets from the agency's subsidiary property ledgers.

DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	**Number:**	15.60.10
Division:	Chief Financial Office	**Effective date:**	September 16, 2017
Chapter:	Accounting and Financial Reporting		
Part:	Capital Assets		
Section:	Classification and Capitalization		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for capital assets.

AUTHORITY: **ORS 293.590**
GASB Statement No. 34
GASB Statement No. 42
GASB Statement No. 51
GASB Statement No. 72
GASB Comprehensive Implementation Guide 2016-1, Q. 4.71

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: **Capital Assets:** Tangible or intangible property used in agency operations having an initial estimated useful life of more than one year and an initial cost (including **ancillary charges**) of $5,000 or more. This definition does not include assets held primarily for resale; agencies account for these assets as inventory.

Acquisition Value: A market based entry price, representing the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

Click here for other **definitions**.

POLICY:

101. Agency management must ensure the proper accounting and reporting of **capital assets** and establish a system of internal controls that reduces the risk of theft or other loss. Agencies should refer to **OAM 15.60.40**, *Intangible Assets* for specific guidance on accounting for intangible capital assets.

102. Record **capital asset** additions in the appropriate capital asset general ledger (GL) accounts. Assets that cost less than $5,000 must be expensed according to **OAM 15.55.00**, *Non-Capital Assets*.

103. If an agency uses estimated historical cost to capitalize an asset, ensure the estimate is reasonable and supported by documentation that adequately describes the methodology and assumptions used to arrive at the estimate. Once calculated, reduce the estimated historical cost by an appropriate amount of accumulated depreciation or amortization.

104. Depreciate or amortize **capital assets** with limited lives on a straight-line basis according to **OAM 15.60.20**, *Depreciation and Amortization*. Do not depreciate or amortize capital assets with indefinite lives.

105. Reconcile **capital outlay** expenditures and property disposition records to the subsidiary property ledgers; reconcile the subsidiary property ledgers to the **capital asset** GL control accounts. Perform these reconciliations at least quarterly.

106. Conduct an annual physical inventory of **capital assets**.

107. When an agency sells or retires a **capital asset**, remove the asset and accumulated depreciation from the GL control accounts and the subsidiary property ledger, and recognize any gain or loss arising from the disposition. When disposing of surplus capital assets, contact the Department of Administrative Services (DAS), Enterprise Goods and Services Division, Surplus Property unit for instructions.

108. In addition to this policy, Statewide IT Policy 107-004-010, *Information Technology Asset Inventory and Management*, applies to *all* IT assets.

PROCEDURES:

Classification

109. The Statewide Accounting and Reporting Services (SARS) combines and reports the **capital asset** general ledger accounts in the state's **Comprehensive Annual Financial Report (CAFR)** under the following classifications:

- Land (not depreciated or amortized; includes land use rights with indefinite lives)
- Construction in Progress (not depreciated)
- Works of Art and Other Nondepreciable Assets (not depreciated/amortized)
- Buildings, Property, and Equipment (includes amortizable intangible assets)
- Infrastructure
- Accumulated Depreciation and Amortization
- Invested in Capital Assets, Net of Related Debt

The GL accounts included within each of these reporting categories appear on the D31 profile in **R*STARS,** as defined below.

110. Land: Assets capitalized as part of this classification are not subject to depreciation or amortization. Record land in the following GL accounts.

- *Land* – Record the carrying value of land owned by the agency in this GL account. When an agency purchases land, the capitalized cost includes the purchase price and any costs incurred to place the land in condition for its intended use, such as legal fees, title fees, surveying costs, appraisal and negotiation charges, site preparation and excavation costs (clearing, filling, and leveling) and similar costs. If an agency purchases land for a building site, add the demolition costs to remove existing buildings to the cost of the land. If an agency acquires land by donation, the amount capitalized represents the estimated **acquisition value** at the time of donation, plus **ancillary charges**, if any. Account for land purchased for resale as inventory, not as a **capital asset**. Do not depreciate land.

Note: *Capitalize only those acquisition costs <u>directly</u> identifiable with a <u>specific</u> asset. For example, do not capitalize the cost of a site assessment or feasibility study undertaken to determine the best location for constructing a new building. Costs incurred during this early stage are not identifiable to a specific property. Capitalize such costs only if incurred <u>after</u> acquisition of the related asset becomes probable (i.e., likely to occur).*

- *Land Use Rights (not amortized)* – The cost of land use rights obtained by contract or other legal right that the agency must account for separately because the agency did not acquire the rights as part of the purchase or donation of the underlying land (see OAM 15.60.40, *Intangible Assets*). Land use rights recorded in this GL account have indefinite lives, for example, a permanent easement.

111. <u>Construction in Progress:</u> Use this GL account to record the costs of unfinished construction or capital improvement projects (i.e. labor, materials and overhead). When a project is complete (i.e., the asset is ready for its intended use), reclassify the capitalized costs from Construction in Progress to the appropriate **capital asset** GL account (e.g., Buildings and Building Improvements). Do not depreciate Construction in Progress. Do not begin depreciating a capital asset until the agency places the asset in service.

112. <u>Works of Art and Other Nondepreciable Assets (not depreciated/amortized):</u> Do not depreciate or amortize assets capitalized as part of this classification. Record these assets in the following GL Accounts.

- *Works of Art and Historical Treasures (not depreciated)* – Includes works of art and historical artifacts, held as individual items or in a collection, that are considered inexhaustible; i.e., their economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long. Examples include statues, paintings, sculptures, and historical documents or artifacts.

  Note*:* *For items considered exhaustible, or depreciable, see paragraph 113 below.*

  Normally, agencies report collections of works of art and historical treasures in the financial statements. However, agencies are not required to capitalize collections if they meet *all* of the following criteria:

  a. The collection is held for reasons other than financial gain (i.e., public exhibition, education, or research as a public service, rather than financial gain).

  b. The collection is protected, kept unencumbered, cared for, and preserved.

  c. The collection is subject to a policy that requires the agency to use the proceeds from sales of collection items to acquire other items for collections.

- *Other Nondepreciable Assets (not depreciated/amortized)* – Includes the cost of intangible assets (other than land use rights) with indefinite lives, such as a trademark.

113. <u>Buildings, Property and Equipment:</u> Depreciate or amortize assets capitalized as part of this classification. Record these assets in the following GL accounts.

- *Works of Art and Historical Treasures (depreciable)* – Includes works of art or historical treasures, held as individual items or in a collection, that are exhaustible, such as exhibits whose useful lives are diminished by display, educational, or research purposes.

  N***ote***: *Agencies record artwork acquired as the result of the "one percent for arts" provision contained in ORS 276.080 in GL account, Buildings and Building Improvements.*

- *Equipment and Machinery* – Tangible property of a permanent nature (other than land, buildings, and improvements to land or buildings) used in agency operations. Examples include machinery, tools, and equipment.

  Note: *Do not capitalize data processing hardware in this account. See below.*

- *Motor Vehicles* – Includes cars, vans, trucks or other motorized vehicles used in agency operations.

- *Data Processing Software* – Computer and Web site software programs purchased, internally generated, or acquired through a licensing agreement. See **OAM 15.60.40**.

- *Data Processing Hardware* – Computers and peripheral equipment, such as modems and servers.

- *Buildings and Building Improvements* – Use this GL account to record the cost of permanent structures (and improvements to structures) used to house people or property. Also, include the cost of fixtures attached to and forming a permanent part of a building. When constructing a new building on land owned by the agency, include the cost of demolishing existing buildings in the cost of the new building. Record the value of land associated with buildings separately in the GL account, Land. Outbuildings related to airports, buildings associated with roadways, or buildings that are considered historical treasures, normally, are not recorded in this account.

- *Land Improvements* – Includes the costs of permanent improvements, other than buildings, that add value to land. Examples include fences, gates, retaining walls, pedestrian bridges, sidewalks, paved paths, parking lots, lighting, irrigation systems, septic systems, swimming pools, fountains, signage, kiosks, and landscaping.

- *Leasehold Improvements* – The cost of permanent additions or improvements made to a leased asset that reverts to the owner of the property upon termination of the lease.

- *Capital Leased Property* – Property acquired through a lease that meets the criteria for capitalization. See **OAM 15.60.30**, *Capital Leases*.

- *Land Use Rights (amortizable*) – The cost of land use rights obtained by contract or other legal right that the agency must account for separately because the agency did not acquire the rights as part of the purchase or donation of the underlying land (see OAM 15.60.40, *Intangible Assets*). Limit the useful life of assets recorded in this GL account to the term of the contract or legal right. Examples include non-permanent easements and water, mineral, and timber rights.

- *Other Intangible Assets (amortizable)* – The cost of intangible assets (other than land use rights) that have limited lives, for example, patents.

114. <u>Infrastructure:</u> Infrastructure assets are long-lived **capital assets** that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, water and sewer systems, and lighting systems. Do not consider buildings as infrastructure assets, except buildings that are an ancillary part of a network of infrastructure assets, such as road maintenance shops associated with roadway systems. Infrastructure capital assets are subject to depreciation and are recorded in the following GL accounts.

- *State Highways* – All state highway roads maintained by an agency including interstate highways, principle arterials, minor arterials, major collectors and minor collectors. Costs includes construction of the road, associated lighting, signage, traffic control devices, pipes, wires, guard rails, culverts, drainage systems, and retaining walls. Also, include maintenance buildings (such as sand sheds) and rest areas if the agency considers these items a subsidiary part of state highways.

- *Other Roads* – Any graveled or paved section of land maintained by an agency and used by motorized vehicles, not associated with state highways. Costs includes construction of the road, associated lighting, signage, traffic control devices, pipes, wires, guard rails, culverts, drainage systems, and retaining walls. Also, include maintenance or other buildings connected with the roadways.

- *Tunnels and Bridges* – Tunnels, bridges, trestles, and other similar items needed for the construction of roadway systems.

- *Airports* – Any airport maintained by an agency. An airport includes elements such as air traffic control structures, hangers, taxiways, runways, fueling stations, outbuildings, helicopter landing pads, and lighting.

- *Utility Systems* – Systems designed to deliver facility services including, for example, sanitary sewer collection systems (not septic systems), fiber optics systems, water distribution systems, electrical distribution systems, and vehicle fuel distribution systems. These systems differ from land improvements in that they are not an integral part of the operation of a single building. Example: Classify a septic system that is integral to the operation of a single building as a land improvement, rather than as infrastructure.

- *Docks, Dikes and Dams* – Infrastructure including docks, piers, dikes, levies, seawalls, dams and structures associated with dams, wharves, and other similar assets.

Acquisitions

115. Account for **capital assets** purchased with resources from **proprietary funds** or **fiduciary funds**, or capital assets donated to those funds, within the GL accounts of those funds. Capital assets purchased with resources from **governmental funds,** or donated to governmental funds, are considered *general* capital assets (assets associated with governmental activities). Account for general capital assets in the **government-wide reporting fund**.

116. Agencies may acquire **capital assets** by purchase (with or without trade-in), construction, capital lease agreement, installment purchase contract, donation, transfer from another fund or agency, eminent domain, or by foreclosure. *Normally, agencies intend to resell assets acquired through foreclosure. Record items for resale as inventory rather than capital assets.*

117. <u>Purchase:</u> Report purchased **capital assets** at historical cost. The cost of a capital asset includes **ancillary charges** necessary to place the asset into service. Ancillary charges include

costs that directly relate to acquisition of an asset, such as freight and handling charges, insurance on the asset while in transit, site preparation costs, and assembly or installation costs to get the asset ready for its intended use and location.

118. When an agency purchases a **capital asset**, use the **capital outlay** expenditure/expense comptroller object that best matches the nature of the asset acquired. Comptroller objects for capital outlay appear on the D10 profile in **R*STARS** and are included in the range 5000 through 5999 (e.g., 5800 Buildings and Improvements). The following entries illustrate how to record the purchase and capitalization of equipment acquired with governmental fund resources.

Governmental Fund

Generic entry to record expenditure using comptroller object 5150 - Equipment and Machinery.

DR Expenditure (C/O 5150)	5,000	
CR Cash		5,000

Government-wide Reporting Fund

T-code 545: To capitalize the asset using comptroller object 5150 - Equipment and Machinery.

DR 0815 Equipment and Machinery	5,000	
DR 3074 Change in Capital Assets	5,000	
CR 3018 Invested in Capital Assets		5,000
CR 3600 GAAP Expenditure Offset – C/O 5150		5,000

119. Additions or Improvements to Existing Assets: The historical cost of a **capital asset** includes the cost of subsequent additions or improvements but excludes the cost of repairs and maintenance. An addition or improvement, unlike a repair, provides additional value, enhances a capital asset's functionality (effectiveness or efficiency), or extends a capital asset's expected useful life. Repairs and maintenance only retain value. Example: The periodic resurfacing of a road is expensed as a repair, while adding a new lane constitutes an addition that is capitalized.

Upon purchase or completion of an addition or improvement, the agency must reevaluate the estimates used in the depreciation calculations (remaining useful life and salvage value) and adjust them prospectively, if necessary.

120. Purchase with Trade-In: When the seller grants a trade-in allowance, record the cost of the new asset at the amount of the cash paid, plus the unexpired cost (asset less accumulated depreciation) of the trade-in surrendered. This rule applies to assets purchased and recorded in **proprietary funds**, **fiduciary funds**, and the **government-wide reporting fund**.

121. Construction: The cost of **capital assets** acquired through construction includes all the costs required to build the asset and get it ready for its intended use, such as architect fees, engineering fees, materials, labor, subcontractor charges, and other similar costs.

122. Capitalized Interest: When enterprise funds use tax-exempt debt to finance the capital construction of specified assets, capitalize the interest costs incurred during the construction period as part of the cost to construct the asset. Interest capitalization starts on the date of the borrowing and continues until the date the asset is ready for its intended use. Interest earned during this period on unspent borrowings reduces the amount the agency capitalizes. *Do not include capitalized interest in the cost of assets purchased with resources from governmental funds. Do not include capitalized interest in the cost of assets purchased with the resources of*

internal service funds, as these are governmental activities for government-wide financial reporting purposes.

123. Capital Lease Agreement: If a lease agreement meets the criteria of a capital lease, capitalize the related asset using an amount equal to the net present value of future minimum lease payments. See **OAM 15.60.30**.

124. Installment Purchase Contract: The cost of a **capital asset** acquired through an installment purchase contract does not include the interest charges contained in each payment. Expense the interest charges. See **OAM 15.60.40**, the final paragraph, for an example of how to account for an installment purchase contract. The example involves a software licensing agreement that is accounted for as an installment purchase contract.

125. Donation of **Capital Asset** by External Party: Report capital assets donated to an agency by an external party at their estimated **acquisition value** at the time of donation, plus **ancillary charges**, if any. It's important to note that acquisition value is a market-based entry price, which is the price to acquire an asset, rather than an exit price, which is the price to dispose of an asset. If the agency cannot readily determine the acquisition value, use an appraisal value. If an agency considers donated capital assets as **capital contributions**, report the amount of the contribution separately on the operating statement. The following entry illustrates the donation of equipment to a governmental fund.

Government-wide Reporting Fund

T-code 537R: To capitalize a donated asset using comptroller object 2550 - Capital Contributions.

DR 0815 Equipment and Machinery	5,000	
DR 3074 Change in Capital Assets		5,000
CR 3018 Invested in Capital Assets	5,000	
CR 3200 GAAP Revenue Offset (C/O 2550)		5,000

Note that there is **no** entry to be made directly in the governmental fund to record the donation. Only an entry to the **government-wide reporting fund** is made. If a **proprietary fund** receives a donated **capital asset**, it does recognize the donation as a capital contribution.

126. **Capital Assets** Used for Pollution Remediation: Agencies account for the estimated costs to acquire facilities and equipment that will be used exclusively in pollution remediation activities as a component of the pollution remediation obligation. Agencies record the eventual purchase of the facilities and equipment as a reduction of the previously recognized liability for pollution remediation outlays.

127. Transfer of Assets: When **capital assets** move from one agency to another, the receiving agency reports those assets at the net book value previously reported (that is, historical cost less accumulated depreciation) by the sending agency in the government-wide statement of net position. Consequently, the sending agency recognizes no gain or loss. Record the transfer in **R*STARS** as a two-step process.

Step 1: Select the appropriate transaction code from the list below to remove the depreciated portion of the capital asset from the sending agency's GL accounts. The receiving agency records the depreciated portion of the capital asset in its GL accounts using the same transaction code with an "R" (reverse).

TC	Description	DR GL (Accum Depr)	CR GL (Asset)
529	FA Disp/Adj-Motor Veh-Prop/Govt-Wide/Fid	0872	0816
530	FA Disp/Adj-Bldg&Imp-Prop/Govt-Wide/Fid	0875	0852
531	FA Disp/Adj-Land Impr-Prop/Govt-Wide/Fid	0867	0856
532	FA Disp/Adj-DP Sftwr-Prop/Govt-Wide/Fid	0868	0817
533	FA Disp/Adj-Equip&Mach-Prop/Govt-Wide/Fid	0869	0815
534	FA Disp/Adj-Lesehld Imp-Prop/Govt-Wide/Fid	0870	0862
535	FA Disp/Adj Cap L'sd-Prop/Govt-Wide/Fid	0871	0863
538	FA Disp/Adj-DP Hrdware-Prop/Gov-Wide/Fid	0873	0818
539	FA Disp/Adj-Art/His Tres-Prop/Gov-Wide/Fid	0876	0812
543	FA Disp/Adj-St Highways-Prop/Gov-Wide/Fid	0880	0840
544	FA Disp/Adj-Tun'l/Brid-Prop/Gov-Wide/Fid	0881	0842
546	FA Disp/Adj-LandUse Rght-Prop/Gov-Wide/Fid	0865	0849
547	FA Disp/Adj-Oth Intangib-Prop/Gov-Wide/Fid	0866	0820
551	FA Disp/Adj-Airports-Prop/Gov-Wide/Fid	0882	0843
552	FA Disp/Adj-Util Syst-Prop/Gov-Wide/Fid	0883	0844
553	Disp/Adj-Docks,Dikes,Dams-Prop/Gov-Wi/Fid	0884	0845
557	FA Disp/Adj-Oth Roads-Prop/Gov-Wide/Fid	0885	0841

Step 2: Use transaction codes 900 and 901 (a balanced transfer) to transfer the remaining net book value of the capital asset from one agency to another. The sending agency uses T-code 900 and the appropriate agency transfer-out comptroller object. The receiving agency uses T-code 901 and the appropriate agency transfer-in comptroller object.

Note: *If the transfer involves a capital asset that is fully depreciated, T-codes 900 and 901 are not required.*

Use comptroller objects 1301 and 1401 only when transferring the net book value of a capital asset from one fund to another fund within the same agency (not transfers between agencies).

See the chart below for details.

TC	**Description**	**DR G/Ls**	**CR GLs**	**Optional G/Ls**	**Comp Object**
900	Capital Asset Transfer Out Between Funds/ Agencies	3550, 3018	3074	0811-0863	1401, 1430, 1800-1999 GASB 38 transfer number required
901	Capital Asset Transfer In Between Funds/ Agencies	3074	3150, 3018	0811-0863	1201-1301, 1305-1490 GASB 38 transfer number required

Ownership is Unclear

128. Sometimes it is unclear who owns a particular **capital asset**. Uncertainty of ownership may arise when an agency maintains or uses an asset, but another governmental entity finances the capital asset and retains a reversionary interest or is responsible for replacement of the asset. Under these circumstances, the agency records the asset in its accounting records and depreciates the asset, if either of the following conditions apply:

- The agency is party to an arrangement that makes it responsible for maintaining the asset, or
- The agency is the party that uses the asset in its activities and makes the decisions regarding when and how the asset will be used and managed.

Estimated Historical Cost

129. Agencies may use a variety of methods to estimate the historical cost of a **capital asset** when invoices are no longer available. One method is to use historical sources, such as old vendor catalogs, to establish the average cost of obtaining a similar asset at the time of acquisition (the standard costing approach). Another approach is to deflate the current cost of a similar asset using an appropriate price index (normal costing or backtrending). In either case, once calculated, reduce the estimated historical cost by an appropriate amount of accumulated depreciation or amortization.

Example: An agency acquired an asset 10 years ago and the asset has an estimated remaining useful life of 5 years. The current cost of a similar asset is $9,500, and the price index for that type of asset over the past 10 years is 1.90 (that is, a 90% increase).

$$\frac{\text{9,500 (cost of new asset)}}{\text{1.90 (price index)}} = \text{5,000 (estimated historical cost)}$$

$$\frac{\text{10 years (past service life)}}{\text{15 years (estimated total service life)}} \times \text{5,000 (estimated historical cost)} = \text{3,333 accum depr/amort}$$

Subsidiary Property Ledgers

130. Track and control **capital assets** by affixing permanent identification tags and recording them in subsidiary property ledgers. The tags must be pre-numbered and controlled. At a minimum, maintain the following details in the property ledgers:

a. Asset identification tag number

b. Asset description

c. Acquisition date

d. Acquisition voucher number

e. Acquisition cost for purchases or acquisition value for donations.

f. Location

g. Accumulated depreciation

h. Value for insurance coverage (usually replacement value). Refer to the *Property Self-Insurance Manual* maintained by DAS, State Services Division, Risk Management.

131. Agencies may also use subsidiary property ledgers to track and control non-capital IT assets and other non-capital assets at high risk of loss. In either case, do not record non-capital assets in the **capital asset** GL control accounts. See **OAM 10.50.00 PO,** *Capital and Non-capital Assets* for detailed internal control procedures related to capital and non-capital assets.

Reconciliations

132. Reconcile **capital outlay** expenditures to the additions recorded in the subsidiary property ledgers. If an agency budgets its **capital asset** purchases or construction as services and supplies expenditures, include those services and supplies comptroller objects in the reconciliation. Reconcile deletions recorded in the subsidiary property ledgers to the property disposition records. Lastly, reconcile the subsidiary property ledgers to the capital asset GL control accounts. Perform these reconciliations at least quarterly.

Physical Inventory Observation

133. Take a **physical inventory** of the agency's property at least annually to verify the existence of all items listed on the subsidiary property ledgers. Investigate and resolve discrepancies and adjust the GL control accounts accordingly. Maintain documented evidence that the agency has conducted a physical inventory.

Impairment

134. When a *significant, unexpected decline* in the service utility of a **capital asset** is determined to be a permanent impairment, reduce the carrying value of the capital asset by the amount of the impairment loss. For guidance, refer to **OAM 15.60.25**, *Capital Asset Impairments*.

Disposals and Retirements

135. As assets wear out or become obsolete, agencies may sell, scrap, or exchange them. When disposing of surplus **capital assets**, follow the guidelines established by DAS, State Services Division, Surplus Property unit. Use the property disposition request (PDR) form that agencies complete to dispose of surplus property as documentation for removing the asset from the agency's GL accounts and subsidiary property ledgers.

136. If an agency *permanently* retires a **capital asset** from service (either voluntarily or involuntarily) and does not immediately sell or otherwise dispose of the asset, the asset ceases to be a capital asset (because it no longer will be *used in operations*) and must be reclassified to state owned property held for sale (GL 0927). Report assets held for sale at the lower of book value or fair value.

137. **Proprietary Fund** Sale: When an agency sells an asset, remove the cost from the appropriate asset account and the related depreciation from the accumulated depreciation account. The difference between the unexpired cost (asset cost less accumulated depreciation) and the proceeds received on the sale equals the gain or loss.

138. The entries below illustrate the sale of a fully depreciated piece of equipment originally purchased by an enterprise fund for $50,000. At the time of sale, accumulated depreciation was $50,000. The equipment was sold for $20,000. Since the asset was fully depreciated, the entire $20,000 represents a gain on the sale.

Enterprise Fund

T-code 149: To record sale proceeds using comptroller object 2330 - Gain (Loss) on Disposition.

DR 0065 Unreconciled Deposit	20,000	
CR 3100 Revenue Control-Cash (C/O 2330)		20,000

T-code 533: To remove accumulated depreciation

DR 0869 Accumulated Depreciation – Equipment	50,000	
CR 0815 Equipment and Machinery		50,000

139. Sale of General **Capital Assets**: When an agency sells a general capital asset, remove the cost from the appropriate asset account and the related depreciation from the accumulated depreciation account in the **government-wide reporting fund**.

140. The entries below illustrate the sale of a partially depreciated vehicle originally purchased with special revenue fund resources for $20,000. At the time of sale, accumulated depreciation was $15,000. The vehicle was sold for $5,000.

Special Revenue Fund

T-code 149: To record sale proceeds received using comptroller object 2330 - Gain (Loss) on Disposition.

DR 0065 Unreconciled Deposit	5,000	
CR 3100 Revenue Control-Cash (C/O 2330)		5,000

Government-wide Reporting Fund

T-code 529: To remove accumulated depreciation.

DR 0872 Accumulated Depreciation – Motor Vehicles	15,000	
CR 0816 Motor Vehicles		15,000

T-code 537: To remove unexpired cost using comptroller object 2330 - Gain (Loss) on Disposition.

DR 3018 Invested in Capital Assets	5,000	
DR 3200 GAAP Revenue Offset (C/O 2330)	5,000	
CR 0816 Motor Vehicles		5,000
CR 3074 Change in Capital Assets		5,000

141. Trade-in: When the seller grants a trade-in allowance, record the cost of the new asset as the amount of the cash paid, plus the unexpired cost (asset cost less accumulated depreciation) of the trade-in surrendered. Remove the cost and accumulated depreciation of an asset traded-in from the accounts in conjunction with recording the acquisition cost of the new asset. This rule applies to assets purchased and recorded in **proprietary funds**, **fiduciary funds**, and the **government-wide reporting fund**.

Financial Statement Reporting

142. SARS combines **capital assets** into the asset categories noted above in paragraph 109 on the **proprietary funds** statement of net position, the statement of fiduciary net position, and the government-wide statement of net position. SARS reports accumulated depreciation/amortization as a contra account to capital assets in the proprietary funds statement of net position and the government-wide statement of net position. Capital assets are reported net of accumulated depreciation in the statement of fiduciary net position. SARS reports invested in capital assets, net of related debt, as a component of net position (equity) in the proprietary funds statement of net position and government-wide statement of net position.

143. SARS reports depreciation/amortization expense in **proprietary funds** as an operating expense in the statement of revenues, expenses and changes in fund net position. Depreciation/amortization expense in **fiduciary funds** is reported in the statement of changes in fiduciary net position as a part of administrative expenses. SARS reports depreciation/amortization expense in the **government-wide reporting fund** as a program expense in the applicable function for governmental or business-type activities.

144. SARS reports gains and losses on disposition of **capital assets** of a **proprietary fund** in nonoperating revenues/expenses in the statement of revenues, expenses, and changes in fund net position. Similar gains and losses in **fiduciary funds** are reported as part of administrative expenses.

145. SARS reports proceeds from the sale of *general* **capital assets** as other revenue in the governmental fund statement of revenues, expenditures and changes in fund balances. Although comptroller object 2330 - Gain (Loss) on Disposition of Assets is used to record sale proceeds, it rolls up to Other Revenue for governmental fund reporting purposes.

146. When an agency transfers a **capital asset** to a **proprietary fund** from the **government-wide reporting fund**, SARS reclassifies the transfer-in and treats it as a capital contribution for financial reporting. The capital contribution appears as a separate line item within nonoperating revenues/expenses on the proprietary funds statement of revenues, expenses, and changes in fund net position.

147. When an agency transfers a **capital asset** from a **proprietary fund** to the **government-wide reporting fund**, SARS reclassifies the transfer-out and reports it as nonoperating expense on the proprietary funds statement of revenues, expenses, and changes in fund net position.

148. Because the state does not normally sell *general* **capital assets** (assets associated with governmental activities), sales of capital assets are usually infrequent and insignificant. However, agencies should consider whether a sales transaction meets the definition of a **special item** or an **extraordinary item** that must be reported separately in the operating statement. If applicable, agencies must disclose the transaction when completing the year-end General Disclosure forms.

149. In the government-wide statement of activities, SARS reports immaterial gains/losses on disposition of *general* **capital assets** as an adjustment to current year depreciation expense. If the gains are material, SARS reports them as **general revenues** (unlike gains on the sale of capital assets in **proprietary funds**, which are reported as part of the appropriate functional expense within business-type activities), or as a special item or an extraordinary item, if applicable.

Disclosure Requirements

150. The state must disclose **capital asset** activity in the **CAFR**, including beginning balance, increases, decreases, and ending balance of each asset classification and the related accumulated depreciation/amortization. The notes to the financial statements report capital assets used in **governmental activities** separately from capital assets used in **business-type activities**.

151. Notes to the state's **CAFR** also include a schedule to illustrate the amount of depreciation expense charged to each function during the fiscal year. The disclosures present depreciation/amortization for **capital assets** used in governmental activities separately from depreciation/amortization for capital assets used in business-type activities. Depreciation related to **fiduciary fund** activities is also presented.

152. If an agency elects not to capitalize a work of art or historical treasure because it meets all of the criteria in paragraph 114, the agency must provide a description of the collection and the reasons the agency has chosen not to capitalize it. If applicable, disclose this information when completing the year-end General Disclosure forms.

153. SARS reports the amount of net position (equity) invested in **capital assets**, net of any related debt outstanding at year end. To determine the appropriate balance, agencies complete a year-end General Disclosure form to report the amount of outstanding debt issued to acquire or construct capital assets. SARS subtracts the outstanding debt from the Invested in Capital Assets account and reports invested in capital assets, net of related debt, in the **proprietary fund** statement of net position and the government-wide statement of net position.

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Financial Reporting	**Number:**	15.60.20
DIVISION:	Chief Financial Office	**Effective date:**	August 1, 2010
Chapter:	Accounting and Financial Reporting		
Part:	Capital Assets		
Section:	Depreciation and Amortization		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for depreciation and amortization of capital assets.

AUTHORITY: **ORS 293.590**
GASB Statement No. 34
GASB Statement No. 42
GASB Statement No. 51

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except those agencies specifically exempted by OAM policy 01.05.00.

DEFINITIONS: **Amortization:** The systematic and rational allocation of the cost of an intangible capital asset (less salvage value) over its estimated useful life.

Depreciation: The systematic and rational allocation of the cost of a tangible capital asset (less salvage value) over its estimated useful life.

Estimated salvage value: The expected residual value of an asset at the end of its useful life; i.e., the estimated amount that will be received at the time the asset is sold or removed from service.

Modified approach: An optional method of accounting for **infrastructure** assets (e.g., roads, bridges, and tunnels) that allows governments to forego the recognition of depreciation expense. To use this method, agencies must demonstrate they can properly maintain infrastructure assets on an ongoing basis.

POLICY:

101. Agency management must ensure the proper accounting and reporting of depreciation and amortization.

102. Except for infrastructure assets, depreciate/amortize capital assets with limited useful lives on a straight-line basis. Do not depreciate/amortize capital assets with indefinite useful lives.

103. Use any generally accepted method of depreciation to depreciate infrastructure assets so long as the method is consistently applied from year to year, complies with applicable statutes, and meets the requirements of the federal government or other organizations related to rate determination and cost recovery. **Do not use the modified approach to account for infrastructure assets unless preapproved by the Chief Financial Office.**

104. Use the recommended useful life ranges presented in the accompanying procedures, unless your agency's experience and specific circumstances differ. Periodically, review the reasonableness of the useful lives assigned to your agency's capital assets. Make any adjustments on a prospective basis only.

105. Depreciation/amortization begins on the day a capital asset is *placed in service*. Generally, the placed-in-service date and the purchase date are the same. In some cases, however, the placed-in-service date is the day installation or construction is complete and the asset is ready to be used for its intended purpose.

106. Do not record depreciation expense (if material) on a capital asset that is temporarily idle, if the idle condition has no affect on the asset's total service capacity. Otherwise, record depreciation each year, regardless of whether the asset is idle or in active use.

107. Calculate annual depreciation/amortization expense for each asset in the agency's subsidiary property ledgers. Reconcile this activity to increases posted to the accumulated depreciation general ledger (GL) control accounts. Upon disposition of a capital asset, remove the related accumulated depreciation/amortization from the subsidiary property ledgers. Reconcile this activity to decreases posted to the accumulated depreciation GL control accounts. Perform these reconciliations at least quarterly.

PROCEDURES:

Estimated Useful Life

108. Useful Life Ranges: Estimating the useful life of a capital asset requires professional judgment. Factors to consider include (a) the asset's present physical condition, (b) the maintenance required to keep the asset in good working order, (c) the asset's capacity to meet the agency's service demands in the future, (d) other obsolescence factors, and (e) the agency's historical experience with similar assets.

Asset Classification	Useful Life Ranges
Works of Art & Historical Treasures (*depreciable)*	10 to 30 years
Equipment and Machinery	3 to 50 years
Motor Vehicles	3 to 30 years
Data Processing Software	3 to 10 years
Data Processing Hardware	3 to 10 years
Other Intangibles *(amortizable, such as patents & copyrights)*	Term of legal rights
Buildings and Building Improvements	10 to 75 years
Land Improvements	10 to 75 years
Land Use Rights *(amortizable)*	Length of contract

(Continued on next page)

Asset Classification	Useful Life Ranges
Leasehold Improvements	Length of lease*
Capital Leased Property	Length of lease**
State Highways	20 to 35 years
Other Roads	15 to 50 years
Tunnels and Bridges	20 to 75 years
Airports	20 to 75 years
Utility Systems	5 to 50 years
Docks, Dikes and Dams	30 to 50 years

**Or life of asset, whichever is shorter*
***Life of asset, for lease-purchase contracts payable*

109. The useful life ranges presented above are recommendations only; an agency's actual experience may differ.

110. Estimated Useful Life versus Actual Experience: Periodically, compare the useful lives assigned to your agency's capital assets to your agency's actual experience. If circumstances indicate the need to change the useful life of a particular class of assets, make the change *prospectively* (i.e., as an adjustment to charges for depreciation/amortization in subsequent periods). Do not make changes to previously reported results.

111. In addition, reevaluate the remaining useful life of a specific capital asset, if the value of that asset (a) increases as the result of an improvement or (b) declines as the result of impairment. For more information on impairments, refer to **OAM 15.60.25**.

112. Adjusting the Estimated Useful Life (example): Equipment acquired for $100,000 (with no salvage value) has an estimated useful life of 20 years. Annual depreciation on a straight-line basis is $5,000. At the end of 12 years, the agency determines the useful life should be 25 years. The change in estimate does not affect the amount already reported as accumulated depreciation. Instead, the agency depreciates the remaining depreciable cost over the remaining "adjusted" useful life of the asset. After adjustment, annual depreciation is $3,077.

Initial depreciation calculation:
$100,000 cost/20 years = $5,000 annual depreciation expense

Accumulated depreciation at the end of 12 years:
$5,000 x 12 = $60,000

Adjustment to the useful life of the asset:
8 + 5 = 13 remaining years

Adjustment to annual depreciation expense:
$40,000 remaining cost/13 years = $3,077 adjusted annual depreciation expense

Straight-line Method and Variations

113. Straight-line Method and Salvage Value: The straight-line method of depreciation/amortization allocates the cost (less salvage value) of a capital asset evenly over its estimated useful life. Calculate annual straight-line depreciation/amortization by deducting the estimated salvage value from the cost of the asset and dividing the remaining cost by the estimated years of useful life.

NOTE: Salvage value is difficult to predict and requires the use of professional judgment. In general, agencies may ignore salvage value in computing annual depreciation/amortization, if the estimated salvage value is less than ten percent of the asset cost.

114. Group/Composite Depreciation: Ideally, agencies calculate depreciation separately for each individual capital asset. However, agencies may apply depreciation to groupings of assets within a major asset class. The term *group depreciation* is used when the grouped assets are essentially similar; otherwise, the term *composite depreciation* applies. In either case, agencies must calculate an average depreciation rate for the group as a whole.

NOTE: No gains or losses are reported on disposals when the group or composite method is used because all assets are presumed to be (a) fully depreciated at the time of disposal if no cash is received or (b) sold for book value if cash is received.

115. Partial Year Depreciation: To determine depreciation/amortization expense for a partial year, compute the expense for the full year and then prorate. Use any one of the following fractional-year policies to allocate the cost between the first year and the last year as long as the policy is consistently applied.

- Nearest full month
- Nearest fraction of a year
- Half year in period of acquisition and disposal
- Full year in period of acquisition, none in period disposal
- None in period of acquisition, full year in period disposal

116. Fully Depreciated Asset Still in Use: If a capital asset is fully depreciated/amortized (cost = accumulated depreciation) but still in use, continue to carry the asset and related accumulated depreciation/amortization in the subsidiary property ledgers and GL control accounts. Do not record a prior period adjustment to compensate for the error in estimating the asset's useful life. Instead, reevaluate the remaining useful lives of similar assets and make any changes prospectively. Remove the fully depreciated/amortized asset and related accumulated depreciation/amortization *only* upon disposition.

Building Components

117. A single building often comprises one or more individual components with a significantly shorter useful life (e.g., roof, HVAC). An agency may use any one of three methods to depreciate the components.

Example: Assume that a $6 million building with no salvage value has an estimated useful life of 60 years, but that its roof (one tenth of the $6 million cost = $600,000) will have to be replaced every 20 years.

- **Treat component as separate capital asset.** This approach treats the cost of each major building component as a separate capital asset. Accordingly, the agency depreciates the $600,000 roof in this example over its own estimated 20-year useful life, leaving a zero balance when the time comes to replace it with a new roof.

- **Include component as integral part of larger capital asset and treat subsequent replacement as repair.** The second approach treats the component as an integral part of the larger asset and depreciates the combined cost over the life of the latter. Accordingly, the agency depreciates the full $6 million cost of the building over 60 years. The agency accounts for the subsequent replacement of the roof in year 21 and year 41 as a repair (an expense of the period).

- **Include component as integral part of larger capital asset and treat subsequent replacement as disposal.** The third approach also treats the roof as an integral part of the building and depreciates the combined cost over the life of the building. However, each time the roof is replaced, the agency removes the undepreciated balance of the current roof and recognizes a loss upon disposal. The agency depreciates the cost of each new roof over the remaining life of the building.

  If detailed project costs by building component are not available, the agency may estimate the cost of the original roof. The original roof's undepreciated balance (carrying value) at date of replacement is equal to the estimated cost less depreciation-to-date, based on the life of the building. *(NOTE: The estimated cost must be reasonable and supporting documentation must be maintained.)*

Leasehold Improvements

118. Leasehold improvements revert to the owner of the property upon termination of the lease. Therefore, the lessee amortizes leasehold improvements over the economic life of the improvement or the life of the lease, whichever is shorter. When determining the life of the lease, include any renewal options management expects to exercise.

Idle Assets

119. If the total service capacity of an asset that is temporarily idle is not affected, do not report depreciation expense (if material) while the asset is idle. Otherwise, record depreciation each year, regardless of whether the asset is idle or in active use.

120. For example, assume a certain piece of equipment is capable of providing ten years of service, but that the equipment has to be taken out of service for one year (in year 6). If the asset will still provide a full ten years of service, only in different years, report depreciation expense only in the years receiving the service (i.e., years 1-5 and 7-11); report no depreciation expense in year 6 when the asset is idle. Conversely, if the asset's service utility is limited to ten chronological years, regardless of whether it is actually used, report depreciation expense in each year (i.e., years 1-10).

     NOTE: If an agency permanently retires a capital asset from service (either voluntarily or involuntarily) and does not immediately sell or otherwise dispose of the asset, the asset ceases to be a capital asset (because it no longer will be used in operations) and must be reclassified to state owned property held for sale (GL 0927). Report assets held for sale at the lower of carrying value or fair value.

Accounting for Depreciation and Amortization

121. Depreciate/amortize capital assets acquired by **proprietary funds** or **fiduciary funds** within the accounts of those funds. Capital assets acquired by **governmental funds** are considered *general* capital assets (assets associated with governmental activities). Depreciate/amortize general capital assets in the **government-wide reporting fund**.

122. Use the following comptroller objects to record annual depreciation/amortization expense:

- 7474 Amortization of Other Capital Assets
- 7475 Amortization of Leasehold Improvements
- 7476 Depreciation Expense
- 7477 Amortization of Leased Property
- 7478 Amortization of Software

123. The entry below illustrates how to record depreciation expense for a building placed in service on July 1. The building cost $5,250,000 and has an estimated useful life of 50 years and an estimated salvage value of $525,000. The building was purchased with special revenue fund resources. Annual depreciation expense is $94,500 ($5,250,000 – $525,000)/50 years).

Government-wide Reporting Fund

T-code 542: To record depreciation expense using comptroller object 7476 – Depreciation Expense.

DR 3600 GAAP Expenditure Offset (C/O 7476)	94,500	
DR 3018 Invested in Capital Assets	94,500	
CR 0875 Accumulated Depreciation – Buildings		94,500
CR 3074 Change in Capital Assets		94,500

Financial Statement Reporting

124. The Statewide Accounting and Reporting Services (SARS) reports depreciation/amortization expense in proprietary funds in the statement of revenues, expenses and changes in fund net assets as a separate line item within operating expenses. Depreciation/amortization expense in fiduciary funds is reported in administrative expenses in the statement of changes in fiduciary net assets. SARS reports depreciation/amortization expense in the government-wide reporting fund in the statement of activities in the applicable function/program for governmental or business-type activities.

125. Accumulated depreciation/amortization is reported as a contra account to capital assets in the proprietary funds balance sheet and the government-wide statement of net assets. SARS reports capital assets, net of accumulated depreciation, in the statement of fiduciary net assets.

Disclosure Requirements

126. Capital asset activity must be disclosed in the state's financial statements. The requirements include disclosure of beginning balance, increases, decreases, and ending balance of each asset classification and the related accumulated depreciation/amortization account.

127. Notes to the State's financial statements also include a schedule to illustrate the amount of depreciation/amortization expense charged to each function during the fiscal year. SARS presents depreciation/amortization for capital assets used in governmental activities, business-type activities, and fiduciary fund activities separately.

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Reporting	**Number:**	15.60.25
DIVISION:	Chief Financial Office	**Effective date**:	August 1, 2010
Chapter:	Accounting and Financial Reporting		
Part:	Capital Assets		
Section:	Capital Asset Impairments		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for impairments of capital assets and for insurance recoveries related to impairments of capital assets.

For insurance recoveries related to theft or embezzlement of cash or other monetary assets, refer to **OAM 15.35.00**.

AUTHORITY: **ORS 293.590**
GASB Statement No. 42

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by OAM Policy 01.05.00.

DEFINITIONS: **Impairment:** A *significant* and *unexpected* decline in the service utility of a capital asset.

NOTE: The events or changes in circumstances that lead to impairments are not considered normal and ordinary. Such events or changes in circumstances are prominent and most likely have prompted discussion by agency management or the media. Absent such conditions, agencies are not required to perform additional procedures to identify impaired capital assets beyond those already performed as part of their normal operations.

POLICY:

101. Agency management must ensure the proper accounting and reporting of capital asset impairments and related insurance recoveries.

102. When a capital asset has been permanently impaired, write down the carrying value of the asset by the amount of the impairment loss. If an impairment is temporary (not permanent), do not adjust the asset's carrying value.

103. To calculate the amount of a capital asset impairment loss, use one of the four methods outlined in the accompanying procedure.

104. Recognize insurance recoveries only when:

- *Realized* (received) by recording the cash receipt, or

- *Realizable* (a claim is pending for which the insurer has admitted or acknowledged coverage) by accruing a receivable.

105. When an insurance recovery and the related impairment loss occur in the same fiscal year, offset the insurance recovery against the impairment loss by using the same comptroller object to record both (C/O 7510 - *Gain/Loss on Capital Asset Impairments*).

106. If an insurance recovery is received in a subsequent fiscal year, record the insurance proceeds in C/O 7511 - *Insurance Recovery Subsequent to Loss*. Do not record the insurance recovery in the same comptroller object used to record the related impairment loss.

107. After recognizing an impairment loss, do not reverse the loss in future years, even if the events or circumstances underlying the impairment change.

108. Record the restoration or replacement of the impaired capital asset using the insurance recovery as a separate transaction.

<u>PROCEDURE:</u>

Indicators of Potential Impairment

109. Impairment occurs when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. Common indicators of potential impairment include:

a. Evidence of physical damage, such as a building damaged by fire or flood that requires restoration efforts to restore service utility

b. Changes in laws or regulations and changes in environmental factors, such as new water quality standards that a water treatment plant does not meet (and cannot be modified to meet)

c. Technological changes or evidence of obsolescence, such as a major piece of diagnostic or research equipment that is rarely used because newer equipment provides better service

d. A change 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

e. Construction or development stoppage, such as stoppage of construction of a building or stoppage of software development, due to lack of funding.

NOTE: A change in demand for the services of a capital asset is not an indicator of impairment. However, changes in demand may be linked to conditions such as those listed above and, under those circumstances, capital assets should be tested for impairment. For example, if demand for the processing services of a mainframe computer decreases because former users of the mainframe transitioned to PC- and server-based systems (evidence of obsolescence), the mainframe should be tested for impairment. However, if the decrease in demand is due to the completion of a special project that required large amounts of processing time on a mainframe computer that also runs other applications, the change in demand is not an indicator of impairment; a test for impairment is not required.

Testing for Impairment

110. Once you have identified a potentially impaired capital asset, test the asset to determine whether both of the following factors are present. (Refer to the flowchart in **Appendix A** for assistance in the decision-making process.)

a. The magnitude of the decline in service utility is *significant*; and

b. The decline in service utility is *unexpected* (i.e., event or change must be outside the normal life cycle of the capital asset, including outside the normal effects of age and use).

111. If the test for impairment results in a finding that no impairment has occurred, reevaluate the estimates used in the depreciation calculations (remaining useful life and salvage value) and adjust them, if necessary. Account for any changes on a prospective basis only. Do not record a prior period adjustment. For more information on depreciation and amortization, refer to **OAM 15.60.20**.

Calculation of Impairment Loss

112. The following chart specifies the measurement method to use for calculating the impairment loss associated with each of the common impairment indicators.

Impairment Indicator	Measurement Method
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 or deflated depreciated replacement cost approach
Construction stoppage	Lower of carrying value or fair value

113. Restoration Cost Approach: Under this approach, derive the amount of impairment 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 for improvements or additions. Estimate the restoration costs in current year dollars, and then use one of two options to convert the estimated restoration costs to historical costs.

Option 1: *Use current year dollars*. Determine the replacement cost of the *entire* asset in current year dollars.

- Calculate a ratio by dividing the restoration cost (in current year dollars) by the current replacement cost. The resulting percentage represents the damaged portion of the capital asset.

- Multiply that percentage by the carrying value (historical cost less accumulated depreciation) to calculate the impairment loss.

Option 2: *Use year of acquisition dollars*.

- Using an appropriate cost index, convert the restoration cost (in current year dollars) to historical cost.

- Calculate 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.

114. Service Units Approach: This approach isolates the historical cost of the service utility of the capital asset that cannot be used. Using one of the three methods described below, determine the amount of impairment 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.

    a. Determine the amount of impairment loss by calculating the ratio of *lost units to the total units originally expected over the life of the asset* and multiply that ratio by the historical cost of the capital asset.

    b. Determine the amount of impairment loss by calculating the ratio of *lost units per period to the total units per period originally expected over the life of the asset* and multiply that ratio by the carrying value of the capital asset.

    c. Calculate the amount of impairment loss by subtracting the value of units remaining after the impairment from the carrying value of the capital asset. Calculate the value of remaining units by multiplying the unit cost by the number of remaining units. Calculate the unit cost by dividing the historical cost by the *total units originally expected over the life of the asset*.

115. Deflated Depreciated Replacement Cost Approach: This approach replicates the historical cost of the service produced. Estimate a current cost for a capital asset to replace the current level of service. Depreciate this estimated current cost to reflect the fact that the capital asset is not new, and then deflate it to convert it to historical cost dollars.

    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 depreciated 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.

116. Lower of Carrying Value or Fair Value: Report capital assets impaired from stoppage of construction or stoppage of development (in the case of internally generated intangible capital assets) at the lower of carrying value or fair value. Calculate the impairment loss by subtracting the fair value of the asset (i.e., net realizable value) from the carrying value.

Permanently Retired Assets

117. If an agency *permanently* retires a capital asset from service (either voluntarily or involuntarily) and does not immediately sell or otherwise dispose of the asset, the asset ceases to be a capital asset (because it no longer will be *used in operations*) and must be reclassified to state owned property held for sale (GL 0927). Report assets held for sale at the lower of carrying value or fair value.

Accounting for Impairments

118. When a capital asset is accounted for in a **proprietary fund** or **fiduciary fund**, account for the impairment loss and related insurance recovery within those funds. When a capital asset is accounted for in the **government-wide reporting fund**, record the impairment loss in the government-wide reporting fund; however, record the related insurance recovery in a **governmental fund**.

119. To recognize the impairment of a capital asset currently in service, reduce the carrying value by recording the entire impairment as an increase in accumulated depreciation. To recognize the impairment of a capital asset currently under construction or development, record the entire impairment as a decrease in the cost of the asset. Use the same transaction code to record an impairment loss in a proprietary fund, fiduciary fund, or the government-wide reporting fund.

Adjustment to Accumulated Depreciation

TC 542: To record an impairment loss using comptroller object 7510 – Gain/Loss on Capital Asset Impairments.

DR 3600 GAAP Expenditure Offset (C/O 7510)	500,000	
DR 3018 Invested in Capital Assets	500,000	
CR 3074 Change in Capital Assets		500,000
CR 08XX Accum Depreciation/Amortization-Capital Asset		500,000

Adjustment to Construction in Progress

TC 545R: To record an impairment loss for construction stoppage using comptroller object 7510 – Gain/Loss on Capital Asset Impairments.

DR 3600 GAAP Expenditure Offset (C/O 7510)	500,000	
DR 3018 Invested in Capital Assets	500,000	
CR 3074 Change in Capital Assets		500,000
CR 0861 Construction in Progress		500,000

Accounting for Insurance Recoveries

120. When an insurance recovery and the related impairment loss occur in the same fiscal year, report the impairment loss net of the insurance recovery by using the same comptroller object to record both the loss and the recovery.

TC 172: To record receipt of insurance recovery (in the same fiscal year as the impairment), using comptroller object 7510 – Gain/Loss on Capital Asset Impairment.

DR 0065 Unreconciled Deposit	350,000	
CR 3500 Expenditure – Cash (C/O 7510)		350,000

121. When the insurance recovery is received in a fiscal year subsequent to the fiscal year in which the related impairment loss occurred, record the insurance recovery as a reduction of expense using comptroller object 7511.

TC 172: To record receipt of insurance recovery (in a subsequent fiscal year), using comptroller object 7511 – Insurance Recovery Subsequent to Loss.

DR 0065 Unreconciled Deposit	350,000	
CR 3500 Expenditure – Cash (C/O 7511)		350,000

122. When the Department of Administrative Services (DAS), Risk Management transmits insurance proceeds to other state agencies electronically (rather than by issuance of a warrant), the receiving agency uses TC 741, rather than TC 172. DAS uses TC 740 to record a balanced transaction.

Financial Statement Reporting

123. The Statewide Accounting and Reporting Services (SARS) reports impairment gains/losses incurred by proprietary funds in the statement of revenues, expenses, and changes in fund net assets as an operating expense, a **special item,** or an **extraordinary item**, as appropriate. Impairment losses in the government-wide reporting fund are reported in the statement of activities as a program expense in the applicable function for governmental or business-type activities, a special item, or an extraordinary item, as appropriate.

124. SARS reports an impairment loss net of the associated insurance recovery when the recovery and loss occur in the same fiscal year. An insurance recovery received in a subsequent fiscal year is reported in proprietary funds in the statement of revenues, expenses, and changes in fund net assets as non-operating revenue or an extraordinary item, as appropriate. SARS reports an insurance recovery received in a subsequent fiscal year in the government-wide reporting fund in the statement of activities as program revenue in the applicable function for governmental or business-type activities or as an extraordinary item, as appropriate.

125. In governmental fund financial statements, SARS reports an insurance recovery as an other financing source or extraordinary item, as appropriate.

126. The GAAP level profiles (D08) established for comptroller object 7510, Gain/Loss on Capital Asset Impairments, and 7511, Insurance Recovery Subsequent to Loss, ensure that insurance recoveries are reported correctly in the financial statements, even though both comptroller objects are treated as a reduction of expense for budgetary purposes. SARS uses the information provided by agencies in the year-end General Disclosures to ensure that impairment losses and insurance recoveries are properly reported in the financial statements.

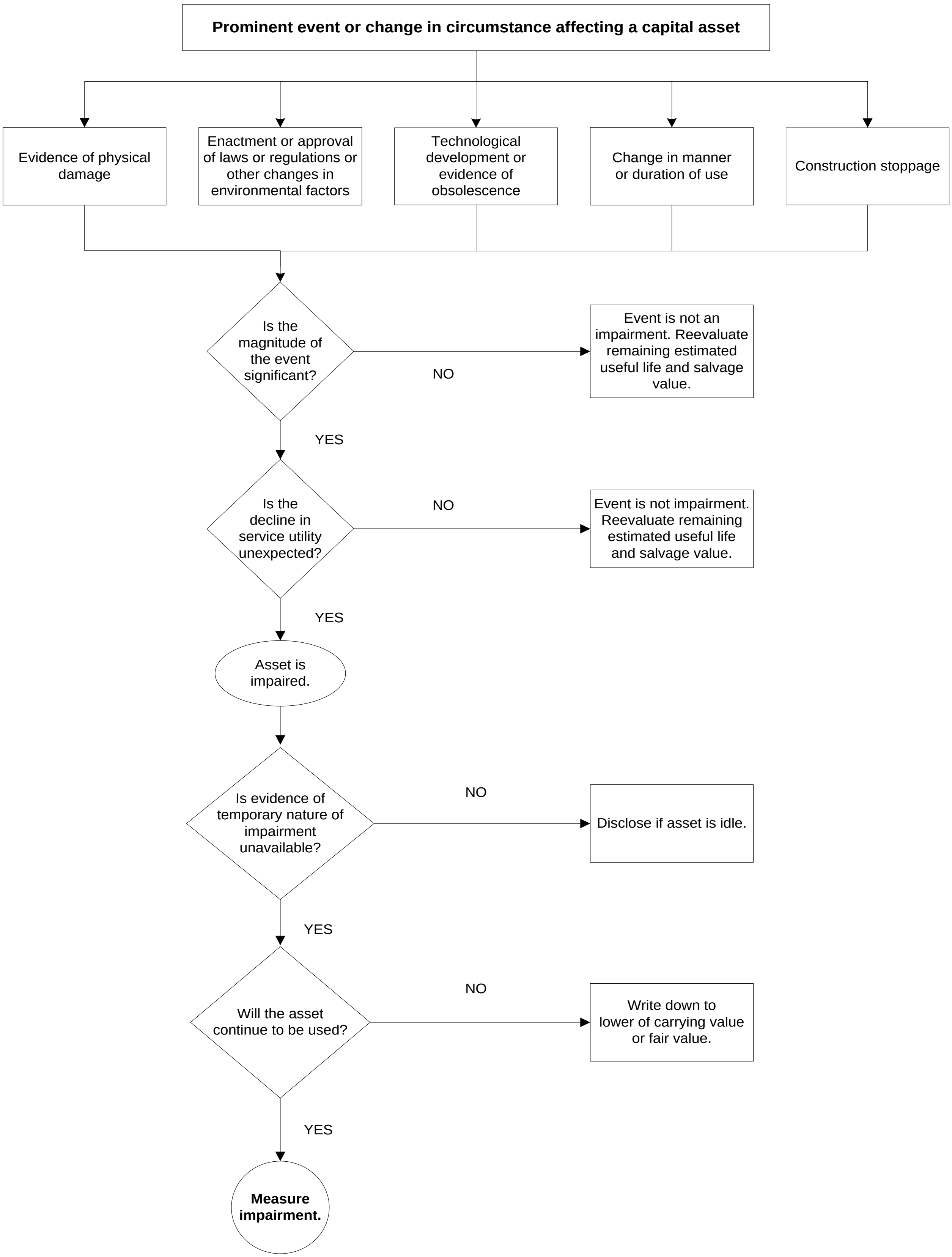
Disclosure Requirements

127. SARS discloses a general description, the amount, and financial statement classification of impairment losses and insurance recoveries in the notes to the financial statements.

128. SARS also discloses the carrying amount of impaired capital assets that are idle at year end, regardless of whether the impairment is considered permanent or temporary.

APPENDIX A

CAPITAL ASSET IMPAIRMENT DECISION PROCESS



DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Reporting	**Number:**	15.60.30
DIVISION:	Chief Financial Office	**Effective date**:	July 1, 2012
Chapter:	Accounting and Financial Reporting		
Part:	Capital Assets		
Section:	Capital Leases		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for capital leases.

AUTHORITY:
ORS 293.590
NCGA Statement No. 5
GASB Statement No. 34
GASB Statement No. 38
GASB Statement No. 62

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

DEFINITIONS: A **lease** is a contractual agreement that conveys the right to use specific property for a specific period of time in return for stipulated, and generally periodic, cash payments.

A lease agreement is classified as a capital lease (in-substance purchase) when substantially all the risks and benefits of ownership are assumed by the lessee.

A **capital lease** is a lease that meets any *one* of the following conditions in (a) through (d) *and* meets the condition in (e):

a. Ownership of the leased property transfers to the agency at the end of the lease.
b. The lease contains a **bargain purchase option**.
c. The lease term is 75% or more of the estimated useful life of the leased property.
d. The present value of the minimum future lease payments at the inception of the lease, excluding **executory costs**, is 90% or more of the fair value of the leased property.
e. In addition to one of the items above, the lease must be noncancellable.

A **bargain purchase option** is a provision in the lease agreement that allows the lessee to buy the leased property sometime during the term of the lease at a price considerably lower than the estimated fair value of the asset at the date the option becomes exercisable.

The lessee's **incremental borrowing rate** is the estimated interest rate the lessee would have had to pay if the lessee purchased the leased property and financed it over the period covered by the lease.

The lessor's **implicit borrowing rate** is the discounted interest rate that, when applied to the minimum future lease payments less executory costs of the lease and the unguaranteed residual value of the asset, causes the aggregate present value of the leased property to be equal to the fair value of the property to the lessor.

POLICY:

101. Agency management is responsible to ensure proper accounting and reporting of capital leases. Agencies that enter into a lease agreement must apply the criteria above to determine if the transaction is a capital lease or an operating lease.

102. The state's capitalization threshold is $5,000. Capitalize only leases for which the present value of the minimum future lease payments is at least $5,000. Record the capital leased asset in general ledger (GL) account 0863, Capital Leased Property.

103. For leases meeting the criteria in a. and b. above, record the liability for future lease payments in GL account 1715, Lease-purchase Contracts Payable. For leases meeting the criteria in c. and d. above, record the liability for future lease payments in GL account 1716, Obligations Under Capital Lease,

104. Record capital leases at an amount equal to the present value of the minimum future lease payments, however the amount must not exceed the fair value of the leased property.

105. If an agency leases property and accounts for it in a **proprietary fund** or **fiduciary fund**, they account for the capital lease within the accounts of that fund. If an agency leases property for general government purposes (using resources from **governmental funds**), they account for the capital lease in the **government-wide reporting fund**. Record payments to reduce the liability in the governmental fund that originated the liability. Do not use a **debt service fund** to record payments on this type of liability unless legally mandated through an appropriation.

106. Depreciate lease-purchase contracts payable (GL 1715) over the estimated useful life of the asset. Depreciate obligations under capital lease (GL 1716) over the length of the lease. Refer to **OAM 15 60 20** on Depreciation and Amortization of capital assets for guidance on depreciation.

107. Agencies are responsible to provide required disclosure information to Statewide Accounting and Reporting Services (SARS) for financial statement note disclosure purposes. Agencies with audited financial statements should include disclosures required for capital leases in the notes to their financial statements.

PROCEDURE:

Examination of Capital Lease Criteria

108. For each lease agreement entered into, consider the criteria for capital leases to determine whether to classify the lease as a capital lease.

    a. Transfer of ownership should be apparent in the terms of the lease.

b. Bargain purchase option. Use professional judgment in determining whether the purchase option price will be a bargain price at the option date. The difference between the option price and the expected fair value must be large enough to make exercise of the option reasonably assured. If there is reasonable assurance at the start of the lease that the agency will exercise the purchase option, or it is the agency's intention at the start of the lease to exercise the purchase option, consider the option a bargain purchase option.

c. Lease term at least 75% of useful life. The lease term is normally the fixed, noncancellable term of the lease. The lease term is at least 75% of the estimated economic life of the leased asset if, for example, an agency has a lease contract for a motor vehicle that extends for 48 months and the agency estimates the useful life of the vehicle at 60 months. In this case, the term of the lease runs for 80% of the normal life of the asset, meeting the criteria. If the term of the lease had been less than 45 months, the lease would not have qualified under this criterion since 45 months is 75% of the useful life of the asset.

   In addition, if the beginning of a lease term falls within the last 25% of the total estimated useful life of the leased asset, including earlier years of use, consider the lease an operating lease.

d. Lease payments at least 90% of fair value of leased asset. Lease payments include minimum rental payments based on the term of the lease and exclude executory costs such as payments for insurance, maintenance and taxes. The lease payments include any residual value guaranteed by the lessee at the end of the term of the lease as well as any penalties that the lessee must pay for failure to renew or extend the lease. If the lease contains a bargain purchase option, the lease payments include only the minimum future lease payments over the term of the lease and the bargain purchase option.

   When determining the present value of lease payments, the lessee uses its **incremental borrowing rate.** The lessee uses the lessor's **implicit interest rate** if that rate can be determined and it is less than the lessee's incremental borrowing rate.

   The lessee then compares the present value amounts to the fair value of the asset to determine if the present value of minimum future lease payments exceeds 90% of the fair value of the leased asset.

   For example, the lessee:

   Leases equipment for a 5-year period
   Will make 5 annual payments of $50,000
   Will make the first payment upon signing the lease on 6/30/X1

   Both the lessee's incremental borrowing rate and the lessor's implicit borrowing rate are 10%
   Fair value of the property is $230,000

Annual lease payments	$ 50,000
From PV tables: Present value of an annuity due	x
Interest rate 10% and number of periods is 5	4.16986
Present value of minimum future lease payments	$208,493

Present value of minimum future lease payments	$208,493
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Divided by fair value of the property	$230,000
Percentage of fair value	90.65%

Capitalize the lease at $208,493 and report interest per the following schedule:

Date	Lease Payment	Interest @ 10%	principal	remaining liability
6/30/X1	-	-		208,493
6/30/X1	50,000	-	50,000	158,493
6/30/X2	50,000	15,849	34,151	124,342
6/30/X3	50,000	12,434	37,566	86,777
6/30/X4	50,000	8,678	41,322	45,454
6/30/X5	50,000	4,545	45,455	(0)

e. A cancellation clause allows the lessee to terminate at any time for any reason. If the lease contains a fiscal funding clause specifying the state may cancel the lease if the state does not appropriate the funds necessary to make the required lease payments, evaluate the likelihood that the state will exercise the clause. If the chances of the lease being canceled due to nonappropriation are remote (normally true for state government), consider the lease noncancellable.

109. If the lease does not meet any *one* of the above criteria in (a) through (d) *and* the condition in (e), record the lease as an **operating lease** in the agency's accounting records. See **OAM 15 80 00** on Commitments for more information on operating leases.

Accounting Transactions

110. When a lease meets the criteria of a capital lease, use the following entry to record an asset and liability in either a proprietary fund or the government-wide reporting fund:

T-code 466: Establish asset and liability for capital lease

DR 0863 Capital Leased Property	xxx	
DR 3074 Change in Capital Assets	xxx	
CR 3018 Invested in Capital Assets		xxx
CR 1715 Lease-Purchases Contracts Payable		xxx
or CR 1716 Obligations Under Capital Lease		

111. After making payment, reduce the liability for the principal portion of the payment only. Charge the interest portion to comptroller object 7400, Interest-Loans.

T-code 459: Reduce capital lease liability for principal payment only

DR 1715 Lease-Purchases Contracts Payable	xxx	
or DR 1716 Obligations Under Capital Lease		
CR 3600 GAAP Expenditure Offset-Capital Outlay		xxx

112. When capital leased property is disposed of, record an entry as follows:

T-code 535: Disposition of capital leased property

DR 0871 Accumulated Amortization-Capital Leased Property	xxx	
CR 0863 Capital Leased Property		xxx

If the capital leased property has any unamortized balance, make the follow entry:

T-code 537: Remove unamortized balance of capital leased asset

DR 3200 GAAP Revenue Offset-Gain(loss) on Disposition	xxx	
DR 3018 Invested in Capital Assets	xxx	
CR 0863 Capital Leased Property		xxx
CR 3074 Change in Capital Assets		xxx

113. At fiscal year end, reclassify the current portion of the capital lease liability (the principal amount that the agency must pay in the coming fiscal year) out of the noncurrent portion of the liability. For Lease-Purchase Contracts Payable, reclassify from GL account 1715 into GL account 1280. For Obligations Under Capital Lease, reclassify from GL account 1716 into GL account 1281. This reclassification ensures appropriate reporting of the current and noncurrent portions of the liability on the face of the statement of net assets.

Financial Statement Reporting

114. In the year an agency acquires a new lease purchase in governmental funds, SARS reports both capital outlay expenditures and an other financing source to properly report leases incurred on the statement of revenues, expenditures, and changes in fund balances, as required by GAAP. SARS obtains the necessary information from agency year-end disclosure forms.

115. For lease-purchase contracts payable (GL 1715), agencies report payments on capital leases entered into for general government purposes as capital outlay (for principal amount) and debt service (for interest expenditure) in **R*STARS**. For governmental fund financial statement reporting, SARS reclassifies the capital outlay expenditures to debt service principal expenditures. This eliminates the expenditures for reporting in the government-wide financial statements. SARS obtains the necessary information from agency year-end disclosure forms.

116. For obligations under capital lease (GL 1716), agencies report expenditures for payments on a capital lease entered into for general government purposes as capital outlay expenditures. For governmental fund financial statement reporting, SARS reclassifies the capital outlay expenditures to debt service principal and interest expenditures, as applicable. This eliminates the principal expense for reporting in the government-wide financial statements. SARS obtains the necessary information from agency year-end disclosure forms.

117. The SARS reports capital leased property as part of Buildings, Property, and Equipment within the capital asset section of the proprietary fund statement of net assets, the statement of fiduciary net assets, and the government-wide statement of net assets.

118. SARS reports both lease-purchase contracts payable and obligations under capital lease as part of Obligations Under Capital Lease on the proprietary fund statement of net assets, the statement of fiduciary net assets, and the government-wide statement of net assets.

119. SARS reports depreciation expense, including that associated with capital leased assets, as a separate line item within operating expenses in the proprietary fund statement of revenues, expenses, and changes in fund net assets. SARS reports depreciation expense as administrative expense on the statement of changes in fiduciary net assets. SARS reports depreciation expense in the applicable function/program for governmental or business-type activities in the government-wide statement of activities.

120. SARS reports accumulated depreciation for capital assets, including that associated with capital leased assets, as a contra account to capital assets on both the proprietary funds statement of net assets and the government-wide statement of net assets. SARS nets accumulated depreciation for capital leased assets against Buildings, Property, and Equipment in the statement of fiduciary net assets.

Disclosure Requirements

121. SARS includes disclosure information for capital leased assets along with disclosure information for all other capital assets as described in **OAM 15.60.10**.

122. SARS discloses the following information specific to capital leases:

a. a description of the general leasing arrangements
b. the gross amount of assets recorded under capital leases
c. minimum future lease payments for each of the next five fiscal years and for each five year increment thereafter, presenting a deduction for the amount of imputed interest to reduce the net minimum future lease payments to their present value
d. depreciation of leased assets

SARS gathers the detail for this disclosure on agency year-end disclosure forms.

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Financial Reporting	**Number:** 15.60.40
DIVISION:	State Controller's Division	**Effective date:** June 1, 2013
Chapter:	Accounting and Financial Reporting	
Part:	Capital Assets	
Section:	Intangible Assets	
APPROVED:	George Naughton, Chief Financial Officer	Signature on file

PURPOSE: This policy provides guidance on accounting for intangible assets, including internally generated intangible assets. The financial reporting requirements for both tangible and intangible capital assets appear in **OAM 15.60.10**, *Capital Assets – Classification and Capitalization*.

AUTHORITY: **ORS 293.590**
GASB Statement No. 34
GASB Statement No. 51

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except those agencies specifically exempted by OAM **01.05.00**.

This policy does not apply to the following intangible assets:

a. Assets acquired or created primarily for **obtaining income or profit**.
b. Assets resulting from **capital lease transactions** reported by lessees.
c. **Goodwill** created through the combination of a government and another entity.

DEFINITION: An intangible asset is an asset that possesses *all* of the following characteristics:

a. It lacks physical substance. It may be contained in or on an item with physical substance, for example, software stored on a compact disc; it may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement.

b. It is non-financial in nature, meaning it is not in monetary form and it does not represent a claim or right to assets or a prepayment.

c. It has an initial useful life of more than one year.

Common types of intangible assets:

- Right-of-way easements
- Other types of easements
- Land use rights, such as mineral, water, or timber rights
- Patents, copyrights, and trademarks
- Computer and Web site software – purchased, internally generated, or acquired through licensing agreements

POLICY:

101. Agency management must ensure the proper accounting and reporting of capital assets that meet the definition of intangible assets as defined in GASB 34 and amended by GASB 51.

102. In addition to the specific provisions of this policy, an agency must apply the general guidance contained in **OAM 15.60.10**, *Capital Assets – Classification and Capitalization*; **OAM 15.60.20**, *Depreciation and Amortization*; and **OAM 15.60.25**, *Capital Asset Impairments* to its accounting and reporting of intangible assets.

103. The state's capitalization threshold is $5,000. Record intangible assets that cost $5,000 or more and have a useful life of more than one year in the appropriate capital asset general ledger (GL) accounts. Expense intangible assets costing less than $5,000 according to **OAM 15.55.00,** *Non-Capital Assets*.

104. Consider land use rights, such as easements, water rights, timber rights and mineral rights, obtained through the purchase or donation of land as "bundled" with the land; do not record them as separate assets.

105. Account for a land use right obtained by lease, contract or other similar agreement (without acquiring the underlying land) as a separate intangible asset. Record the obligation to make payments over the life of the agreement as a long-term liability.

106. Account for and report intangible assets acquired or created primarily for obtaining income or profit as investments.

107. Capitalize software acquired through a licensing agreement as an intangible asset, even if the license agreement refers to the arrangement as a lease. Record the obligation to make payments over the life of the agreement as a long-term liability.

108. When a computer software system consists of more than one module or component, apply the guidance in this policy to each individual component or module separately rather than the system as a whole.

109. Amortize intangible assets with limited lives on a straight-line basis according to **OAM 15.60.20**. Do not amortize intangible assets with indefinite lives.

110. When an agency sells or retires an intangible asset, remove the asset and accumulated amortization from the GL control accounts and subsidiary property ledger and recognize any gain or loss arising from the disposition.

111. In addition to this policy, Statewide IT Policy 107-004-010, *Information Technology Asset Inventory and Management*, applies to *all* IT assets, including intangible IT assets.

PROCEDURES:

Recognition

112. Recognize an intangible asset *only* if it is identifiable. Consider an intangible asset as identifiable if it is either (1) separable, meaning the asset is capable of being separated from the agency and sold, transferred, licensed, etc; or (2) the asset arises from contractual or other legal rights.

Land Use Rights Bundled with Property

113. Ownership of property comprises a bundle of rights that includes the right to control the use of the property. Do not report land use rights such as easements, water rights, timber rights and mineral rights obtained through the purchase or donation of land as separate assets. Although the individual rights included in the bundle of rights are separable and intangible in nature, collectively they represent the ownership of the land.

Land Use Rights Accounted for Separately

114. Account for land use rights obtained by lease, contract or other similar agreement (without acquiring the underlying land) as separate intangible assets. Record the agency's obligation to make payments over the life of the agreement as a long-term liability. Land use rights that may be obtained from a third party through a legal agreement include:

    a. The right to access land, such as an easement

    b. The right to explore or exploit natural resources, such as timber, mineral, or water rights

115. A developer may donate a right-of-way easement along with infrastructure assets. Report the easement as a separate asset rather than as infrastructure. Also, report the easement at estimated fair value based on what it would have cost to acquire the asset had it not been donated. Do not arbitrarily assign a nominal value to the easement.

Intangible Assets Acquired or Created to Obtain Income

116. Assets acquired or created primarily to obtain income or profit are not subject to this policy. For example, this policy does not apply to a copyright acquired or created by a public university that the university uses primarily to generate royalty income.

117. However, when an agency uses an intangible asset, such as a trademark, both in its operations and to obtain revenues, professional judgment is required. To determine the primary purpose of the intangible asset, consider the amount of revenue expected to be generated versus the service capacity gained by using the intangible asset in the agency's operations.

Internally Generated Intangible Assets

118. Consider intangible assets "internally generated" if the agency or an entity contracted by the agency creates or produces the assets. Also, consider assets acquired from a third party as internally generated if the assets require more than minimal additional effort on the part of the agency to achieve the desired service capacity.

119. Under the "specified-conditions" approach, an agency capitalizes outlays associated with the development of internally generated intangible assets only when all of the following conditions occur:

a. The agency has determined the specific objective of the project and the service capacity expected upon completion of the project.

b. The agency has determined that it is technologically feasible to complete the project.

c. The agency has demonstrated that it intends to complete the project (or in the case of a multiyear project, to continue development of the intangible asset).

This approach provides a safeguard against the capitalization of outlays that may become impaired in the future because the agency terminated the project.

120. Expense outlays incurred *prior* to meeting the above criteria. Capitalize outlays incurred *subsequent* to meeting the criteria.

Internally Generated Computer Software

121. When an agency develops computer software in-house, by agency personnel or by a third-party contractor, consider it internally generated. Commercially available software (purchased or licensed from a third party) that requires more than minimal additional effort to put it into operation is also internally generated.

122. The following three stages represent activities associated with developing and installing internally generated computer software:

Preliminary Project Stage	**Application Development Stage**	**Post-implementation/ Operation Stage**
Conceptual formulation of alternatives	Design of chosen path, including software configuration and software interfaces	Application training
Evaluation of alternatives	Coding	Software maintenance
Determination of existence of needed technology	Installation to hardware	
Final selection of alternatives	Testing, including parallel processing phase	

123. <u>Preliminary Project Stage:</u> When a computer software project is in the preliminary project stage, agencies should take the following actions:

a. Decide how to allocate resources – e.g., determine if programmers should develop a new accounts receivable subsidiary system or direct their efforts toward correcting existing problems in the current accounts receivable system.

b. Determine the performance requirements for the computer software project – e.g., through a user needs analysis.

c. Determine the systems requirements for the computer software project and if the technology needed to achieve performance goals exists.

d. Explore alternative means of achieving specific performance goals – e.g., evaluating internal development of the computer software against purchase and modification of commercially available software.

e. Select a vendor, if an agency chooses to purchase software.

f. Select a consultant to assist in software development or installation.

124. For internally generated computer software, consider the criteria in paragraph 119 to be met only when *both* of the following actions have occurred:

a. The activities in the preliminary project stage are complete, and

b. Management implicitly or explicitly authorizes and commits to fund the software project (at least currently in the case of a multiyear project).

Accordingly, expense outlays connected with activities in the preliminary project stage as incurred. For commercially available software that the agency will modify and consider internally generated, consider (a) and (b) above to have occurred when the agency commits to purchase or license the computer software.

125. <u>Application Development Stage:</u> Once the agency meets the criteria in paragraph 124, capitalize outlays related to activities in the application development stage. Capitalization stops no later than the point at which the computer software is substantially complete and operational.

126. Data conversion costs qualify as an activity of the application development stage *only* to the extent data conversion is necessary to make the computer software operational. Otherwise, treat data conversion as an activity of the post-implementation operation stage. Data conversion activities include purging or cleansing of existing data, conversion of data from the old system to the new system, and reconciliation of the data from the old system to the data in the new system.

127. <u>Post-Implementation/Operation Stage:</u> Expense outlays associated with activities in the post-implementation/operation stage as incurred.

128. The activities within the stages of development of internally generated computer software may occur in a different order than discussed above. For example, training staff to use the new system may occur during the application development stage. Regardless of the order of activities, base the decision to capitalize or expense outlays on the nature of the activity, not the timing of its occurrence.

Software Modifications, Upgrades, or Enhancements

129. Capitalize outlays for modification of computer software already in operation according to paragraphs 124 and 125 above, if the modification results in any of the following:

a. An increase in the functionality of the computer software; e.g., the software performs tasks that it was previously incapable of performing.

b. An increase in the efficiency of the software; e.g., an increase in the level of service provided by the software without the ability to perform additional tasks.

c. An extension of the estimated useful life of the software.

NOTE: Modifications that extend useful life alone without adding capacity or efficiency are rare events. Generally, an extension of useful life is the result of underestimating the original useful life. When determining the useful life, consider how maintenance activities may affect the serviceability of the software.

If the software modification does not result in any of these outcomes, account for the modification as maintenance and expense the related outlays as incurred.

130. In theory, outlays for a maintenance contract that covers required maintenance and any unspecified upgrades should be allocated between the upgrades that meet the conditions discussed in 129 and all other upgrades/maintenance provided by the vendor. As a practical matter, agencies may choose to establish a policy that treats all unspecified upgrades as maintenance and expense the related costs as incurred.

Computer Software with Multiple Components

131. An agency may enter into a licensing agreement for computer software with multiple components that the agency considers internally generated (e.g., the license to use the software; modifications to meet the agency's requirements; training; routine systems maintenance; and rights to future upgrades and modifications). The agency must allocate the outlays associated with the agreement among all the individual elements based on the guidance in this policy. For example, capitalize outlays to obtain the software license as part of the application development stage and expense outlays to train the users as part of the post-implementation/operation stage.

Software Licensing Agreements

132. Software licensing agreements are not subject to **OAM 15.60.30**, *Capital Leases*, even if the agreement is referred to as a "lease." Agencies must capitalize the software and report it as an intangible asset. They must also record a long-term liability to recognize the obligation to make annual payments over the life of the contract.

Software Licenses Purchased as a Bundle

133. If a large number of software licenses are purchased all at one time and installed on individual PC's, and the cost of each separate license is less than the state's capitalization threshold, treat the entire cost as a period expense. However, if the software licenses are purchased as part of a "server install" and all of the licenses are installed on one server (computer) that individual users can access, capitalize the entire purchase as a single asset if the total cost is $5,000 or more.

Capitalized Interest

134. When a proprietary fund finances the acquisition of an internally generated intangible asset, the interest capitalization requirements discussed in **OAM 15.60.10** apply. Interest capitalization starts on the date of the borrowing and continues until the date that the asset is ready for its

intended use. Interest earned during this period on unspent borrowings reduces the amount the agency capitalizes. *Capitalized interest is not included as part of the cost of assets purchased with resources from governmental funds.*

Useful Life

135. The useful life of an intangible asset that arises from contractual or legal rights must not exceed the legal term of the rights. Consider renewal periods when determining the useful life of an intangible asset, if the agency plans to seek a renewal and the anticipated costs will be minimal. If the expected outlay for renewal is more than minimal, the agency must account for the resulting transaction as a new intangible asset.

136. Consider an intangible asset to have an indefinite life, if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset with an indefinite life. Do not amortize intangible assets with indefinite lives. If changes occur that cause the useful life of an intangible asset no longer to be indefinite, the agency must test the asset for impairment. Amortize the carrying value of the intangible asset, if any, following the recognition of an impairment loss over the remaining estimated useful life of the asset.

Impairment

137. When testing an intangible asset for impairment, apply the provisions of **OAM 15.60.25,** *Capital Asset Impairments*. In addition to the examples included in OAM 15.60.25, a common indicator of impairment occurs when the agency stops development due to a change in priorities. Report internally generated intangible assets impaired by development stoppage at the lower of carrying value or fair value.

Sample Transactions

138. An agency internally develops a computer software program for their accounts receivable system. Total outlays through final acceptance testing were $6,000, which the agency paid from its **Special Revenue fund**. The useful life of the software is three years. The agency decides to take a full year of amortization in the year the software is placed in service using the straight-line method. After year two, the agency determines that the software is permanently impaired and of no future use to the agency. Its fair value is zero. The agency makes the following entries:

<u>Special Revenue Fund</u>

Generic entry to record expenditure using comptroller object 5300 - Data Processing Software.

DR Expenditure (C/O 5300)	6,000	
CR Cash		6,000

<u>Government-wide Reporting Fund</u>

TC 545: To capitalize software using comptroller object 5300 - Data Processing Software.

DR 0817 Data Processing Software	6,000	
DR 3074 Change in Capital Assets	6,000	
CR 3018 Invested in Capital Assets		6,000
CR 3600 GAAP Expenditure Offset-Capital Outlay (C/O 5300)		6,000

TC 542: To record amortization of software for year one and two using comptroller object 7478 - Amortization Expense-Software.

DR 3018 Invested In Capital Assets	2,000	
DR 3600 GAAP Expenditure Offset (C/O 7478)	2,000	
CR 3074 Change in Capital Assets		2,000
CR 0868 Accumulated Amortization–DP Software		2,000

TC 545R: To recognize the impairment loss using comptroller object 7510 - Gain/Loss on Capital Asset Impairment.

DR 3018 Invested in Capital Assets	2,000	
DR 3600 GAAP Expenditure Offset (C/O 7510)	2,000	
CR 0817 Data Processing Software		2,000
CR 3074 Change in Capital Assets		2,000

TC 532: To remove remaining book value.

DR 0868 Accumulated Amortization-Data Processing Software	4,000	
CR 0817 Data Processing Software		4,000

139. Assume that the $6000 payment in the special revenue fund is the first installment on a five-year software licensing agreement that totals $30,000.

Government-wide Reporting Fund

TC 545: To capitalize the software licensing agreement using comptroller object 5300 - Data Processing Software.

DR 0817 Data Processing Software	30,000	
DR 3074 Change in Capital Assets	30,000	
CR 3018 Invested in Capital Assets		30,000
CR 3600 GAAP Expenditure Offset-Capital Outlay (C/O 5300)		30,000

TC 459R: To record the remaining obligation under the contract.

DR 3600 GAAP Expenditure Offset-Capital Outlay (C/O 5300)	24,000	
CR 1715 Lease/Purchase Contracts Payable		24,000

TC 459: To reduce the obligation in subsequent years for payments made on the contract.

DR 1715 Lease-Purchase Contracts Payable	6,000	
CR 3600 GAAP Expenditure Offset-Capital Outlay (C/O 5300)		6,000

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Financial Reporting	**Number:** 15.65.10
DIVISION:	Chief Financial Office	**Effective date**: January 22, 2018
Chapter:	Accounting and Financial Reporting	
Part:	Bonds and COPs	
Section:		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file

PURPOSE: This policy establishes accounting and financial reporting requirements for agencies that issue bonds or certificates of participation.

AUTHORITY:
ORS 293.590
ORS 283.085 to 283.092
ORS 286.505 to 286.545
GASB Statement No. 34
GASB Statement No. 38
GASB Statement No. 62
GASB Statement No. 65

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: **Bonds** are interest-bearing certificates sold by a government to raise money. They normally bear a stated rate or rates of interest, or state a formula for determining that rate. Generally, bonds mature on a date certain, on which date a fixed sum of money plus interest is payable to the holder or owner.

The State has issued three types of bonds: general obligation bonds, revenue bonds, and general appropriation bonds.

General obligation bonds are general obligations of the State, secured by the full faith and credit of the State.

Revenue bonds are secured by specific revenues that are pledged or designated for payment of the bonds.

General appropriation bonds are special obligations payable solely from appropriated funds and are not general obligations of the State.

Certificates of participation (COPs) are special limited obligations of the borrower, the Department of Administrative Services (DAS), payable solely from available funds as provided in the financing agreement and are not a general obligation of the State.

A **financing agreement** is a lease-purchase or loan agreement to finance real or personal property or infrastructure that the state will own and operate.

Available funds means monies that the Legislature makes available to pay amounts due under financing agreements.

Click here for other **definitions**.

POLICY:

101. Agency management must ensure the proper accounting and reporting of long-term debt and COP transactions in accordance with generally accepted accounting principles (GAAP) and the official statements.

102. Oregon law gives the authority to use financing agreements, which includes COPs, to the Department of Administrative Services. However, agencies using the proceeds of COPs report the obligations in their accounts. While agencies may still have COPs balances outstanding, beginning in 2011, DAS discontinued issuing COPs except in a few limited circumstances. DAS now issues Series XI-Q general obligation bonds rather than COPs.

103. The liability to repay the proceeds obtained from the sale of COPs is not debt as defined by the Oregon Constitution. However, for purposes of recording in the State's accounting records and presentation in the financial statements, agencies report this liability as long-term debt.

104. The process for issuing bonds is much the same as the process for issuing COPs. The key participants involved in the sale outside state government are the underwriters (investment bankers), bond counsel, financial advisors, trustees, and insurers. The State Treasurer issues or approves the issuance of all debt. The Department of Justice provides legal advice, and the Audits Division may provide comfort letters.

105. Annually, agencies will submit disclosure packets to Statewide Accounting and Reporting Services (SARS) with all information needed to properly report and disclose debt in the Comprehensive Annual Financial Report (CAFR). Agencies that issue separate audited financial statements shall include all applicable disclosures related to bonds and certificates of participation in the notes to their financial statements.

PROCEDURES:

Recording Issuance of Debt

106. The underwriter purchases the bonds or COPs for resale to its customers. Generally, the amount the underwriter pays to the State will not equal the face amount of the debt. The amount the state receives is net of the underwriter’s discount, and the bond or COP discount or premium. When DAS manages the debt issuance, it will bill agencies for the costs of issuance, at which point agencies record this expense. If DAS does not manage the debt issuance, the costs of issuance may be withheld from the debt proceeds or paid from another source of funds. Regardless of how these costs are paid (by debt proceeds or agency cash), agencies must record each of these items separately in the accounting records.

107. The accounting entries for bonds and COPs are essentially the same; only the specific general ledger accounts and comptroller objects differ. Likewise, the transactions agencies record for debt issued by proprietary funds and general government debt are essentially the same. The difference involves the funds where agencies record the transactions. Appendix A, an

addendum to this procedure, contains a listing of common transaction codes agencies should use for recording bond and COP transactions.

108. When the state issues bonds or certificates of participation (COPs) for general government purposes, agencies record the proceeds in governmental funds. This may be in a special revenue fund or, if the debt is for capital construction, it may be in a capital projects fund. Agencies record the obligation for the debt in the government-wide reporting fund. Repayments involve both the governmental fund (where the agency records the payments) and the government-wide reporting fund (where the agency adjusts the liability and records any amortization).

109. For general government debt, agencies may choose to establish debt service funds to record the accumulation of resources and payment of the debt.

110. When the state issues debt for proprietary funds, agencies record both the proceeds and the obligation for the debt in the proprietary fund itself.

111. Agencies must record the face amount of debt, underwriter's discount, original issue discount, original issue premium, and costs of issuance separately in the accounting records. It is not appropriate to record only the net amount of cash received.

112. Agencies should use transaction codes 567 and 568 (for cash in bank) and transaction codes 190 and 167R (for cash in State Treasury) to record cash transactions associated with the initial issuance of long-term debt. Agencies should use transaction codes 504 and 514 to record the liability for the debt.

113. For example, DAS issues general obligation bonds on behalf of an agency for general government purposes, which they sell at a premium. The entries to record the issuance (assuming cash in State Treasury) are as follows:

Governmental Fund

TC 190: To record the face amount of General Obligation bonds issued

DR 0065 Unreconciled Deposit	2,500,000	
CR 3100 Revenue Control – Cash (1501 GO Bonds *(DS Paid from GF)*)		2,500,000

Note: *If general obligation debt service (DS) is to be paid primarily by the General Fund, use 1501 GO Bonds (DS Paid from GF). If general obligation debt service is paid primarily from other dedicated funds, use 1500 GO Bonds (Dedicated Funds). The separation of revenue is* ***only*** *for general obligation bonds, and all other entries below are the same.*

TC 190: To record original issue premium

DR 0065 Unreconciled Deposit	50,000	
CR 3100 Revenue Control – Cash (1510 OIP Bonds)		50,000

TC 167R: To record underwriter's discount

DR 3500 Expenditure Control – Cash (4050 Bond Costs)	192,000	
CR 0065 Unreconciled Deposit		192,000

Note: *Because DAS managed the bond issuance, it will bill agencies for their portion of the costs of issuance. Agencies record the expense when paying the invoice using the T-codes provided by DAS. (Use Comp Object 4050 Bond Costs)*

Government-wide Reporting Fund

TC 504: To record liability for the debt for face value of GO bonds issued

DR 3200 GAAP Revenue Offset (1501 GO Bonds (DS Paid from GF))	2,500,000	
CR 1714 Bonds Payable – Noncurrent		2,500,000

TC 504: To record the original issue premium

DR 3200 GAAP Revenue Offset (1510 OIP Bonds)	50,000	
CR 1713 Premium on Bonds Sold		50,000

114. It is important that agencies use the same comptroller objects in the government-wide reporting fund as they use to record the entries in the governmental fund. This will ensure proper reporting of the transactions in the financial statements.

115. If there is accrued interest earned and payable from date of issuance to date of sale of the debt, agencies record it in the fund that will be making the debt service payments. Agencies use this interest to offset some portion of the first interest payment.

116. Use TC 191 to debit cash in State Treasury and credit accrued interest payable (use TC 507 for cash in bank).

117. Official documents of bond or COP issues may require that the agency establish reserves, which the agency will use for the payment of interest or principal on the debt near the end of the life of the issue. Agencies generally should hold any reserves in a separate D23 fund. Agencies use intrafund transfers to move the required reserve amount from the fund holding the proceeds into the separate D23 fund. DAS currently holds and reports all reserves related to lottery revenue bonds.

Payment of Principal and Interest

118. Generally, DAS manages the COP or bond debt service for agencies. When this occurs, agencies remit cash for principal and interest to DAS, which then remits the payments to the trustee or paying agent, who then pays the COP or bond holders. In that case, agencies record expenditures at the time the agency makes their payment to DAS using balanced transaction codes 760 and 761 (which liquidate the receivable in DAS established with TC 120).

To make payments to DAS to remit to the trustee or paying agent:

Governmental Fund

T-Code 760: To record payment of principal and interest to DAS (billed by DAS)

DR 3500 Expenditure Control – Cash (7100 Principal – Bonds)	50,000	
CR 0070 Cash on Deposit with Treasurer		50,000
DR 3500 Expenditure Control – Cash (7250 Interest - Bonds)	2,000	
CR 0070 Cash on Deposit with Treasurer		2,000

If agency COP or bond debt service is **not** managed by DAS, but paid with cash on deposit with the Treasury (GL 0070), other transaction codes must be used. The appropriate transaction code depends upon the facts and circumstances. In this situation, agencies should contact Statewide Financial Management Services (SFMS) for transaction code guidance.

If the agency uses Cash in Bank (GL 0077) to make principal and interest payments, use TC 568.

119. When an agency makes principal payments, they must reduce the liability in the government-wide reporting fund. The entry to reduce the debt for payment of principal is as follows:

Government-wide Reporting Fund

TC 528: To reduce liability for bonds payable by amount of principal paid

DR 1714 Bonds Payable – Noncurrent	50,000	
CR 3600 GAAP Expenditure Offset (7100 Principal – Bonds)		50,000

Amortization of Original Issue Premium and Discount

120. Agencies must amortize original issue premiums and discounts over the life of the debt issue using a systematic and rational method. Agencies record amortization in the same fund that reports the discount or premium, (the government-wide reporting fund for general governmental debt and the proprietary fund for proprietary fund obligations).

121. For example, the entries to record amortization of the original issue premium for bonds issued for governmental activities is as follows:

Government-wide Reporting Fund

TC 523: To amortize original issue premium

DR 1713 Premium on Bonds Sold	2,500	
CR 3600 GAAP Expenditure Offset (7450 Amort Disc/Prem on Bonds)		2,500

Debt Issuance Costs

122. With the exception of issuance costs for prepaid insurance, agencies should recognize debt issuance costs as an expense in the period incurred.

123. Agencies should report prepaid insurance costs as an asset (prepaid items) and recognize the expense in a systematic and rational manner over the life of the related debt. (Use Comp Object 7468 Amortization of prepaid debt insurance)

Fiscal Year-end Entries

124. At fiscal year-end, agencies must record an accrual for interest payable as of June 30. This interest payable is equal to the amount of interest attributable to the period beginning the day after the last interest payment through June 30. Agencies should record the accrual in the same fund as the liability using TC 437, which will auto reverse in the following year.

125. If an agency transfers cash to a debt service fund for payment of principal or interest immediately after the end of the fiscal year, the agency should accrue interest payable in the debt service fund. The cash in a governmental fund is a current resource available for spending,

but since the agency will spend this cash for payment of principal and interest immediately after the fiscal year-end, it is appropriate for the agency to accrue a payable against that cash. This prevents an overstatement of current resources available for expenditure in the next period. If the agency makes this accrual in a debt service fund, they should not make an accrual in the government-wide reporting fund.

126. At fiscal year-end, it may be necessary to record or reclassify cash or investments held by a trustee. For COP debt that DAS manages, DAS shall provide information about cash and/or investments in agency debt service accounts. For lottery debt, agencies will need to obtain information by reviewing their online Union Bank Statements. Agencies should reclassify the cash balance related to debt held outside of Treasury to GL account 0928, Cash and Cash Equivalents – Restricted Noncurrent. Agencies should reclassify the cost of investments related to debt to GL account 0940, Investments-Restricted.

127. Agencies should disclose the amount in Cash in State Treasury related to bonds on the agency disclosure form titled, “Restricted Cash and Investments” from information obtained from their online State Treasury account. This disclosure allows SARS to properly reclassify the Cash in State Treasury to Cash and Cash Equivalents-Restricted.

128. For financial reporting purposes, agencies must report the principal due within one year separately from the long-term debt in both the government-wide reporting fund and proprietary funds. This involves a reclassification as follows:

Government-wide Reporting Fund

TC 475 and 475R: To record current portion of bonds payable for year-end reporting

DR 1714 Bonds Payable – Noncurrent	125,000	
CR 2951 System Clearing GL		125,000
DR 2951 System Clearing GL	125,000	
CR 1276 Bonds Payable – Current		125,000

Financial Statement Reporting

129. Governmental fund financial statements report bond and COP proceeds as other financing sources. Governmental fund financial statements report expenditures related to bond or COP issuance as other debt service expenditures.

130. In the proprietary fund financial statements, GAAP offsets eliminate bond and COP proceeds and principal payments against the change in the balance of outstanding debt.

131. The government-wide financial statements combine governmental funds and the government-wide reporting fund. Within the combined funds, GAAP offsets eliminate the proceeds and principal payments against the change in the balance of outstanding debt.

Disclosure Requirements

132. Agencies must complete year-end disclosure forms applicable to bonds and COPs to allow SARS to disclose required information in the notes to the State's financial statements. Agencies that issue audited financial statements must include required long-term debt disclosures in the notes to their financial statements. Relevant disclosures at fiscal year-end include:

    a. A description of the types of long-term debt authorized to be issued
    b. Schedules showing the changes in outstanding debt for each type of long-term debt for both governmental and business-type activities
    c. Schedules of future debt service requirements (principal and interest displayed separately) for each type of long-term debt for both governmental and business-type activities
    d. Terms and interest rates associated with variable-rate debt
    e. Amounts of long-term debt due within one year of the date of the financial statements
    f. Specific information related to demand bonds.

APPENDIX A

Transaction Codes for Bond and COP Programs

The following is a summary of suggested t-codes for use in bond and COP transactions.

This list is not all inclusive, but provides the most frequently used t-codes for debt transactions.

Cash Transactions:

Governmental/Proprietary/Fiduciary Fund:

TC 567	Record cash received on sale of COPs, interest income - Cash in Bank
TC 567R	Record negative revenue for original issue discount - Cash in Bank
TC 568	Record expenditure for issuance costs, interest payment - Cash in Bank
TC 190	Record cash received on sale of Bonds - Cash in Treasury
TC 190	Record negative revenue for original issue discount - Cash in Treasury
TC 167R	Record expenditure (ACH or wire transfer) for issuance costs - Cash in Treasury
TC 760/761	Remit COP principal and interest payment to DAS CFO - Cash in Treasury
TC 186	Recognize wire transfer or ACH transfer in - Cash in Bank
TC 479	Record transfer out - Cash in Bank

Issuance of Debt:

Governmental Fund:

TC 191	Establish accrued interest on Bond/COP sold – Cash in Treasury
TC 507	Establish accrued interest on Bond/COP sold
TC 512	Establish/adjust matured Bond/COP coupon payable
TC 513	Payment of accrued interest on Bond/COP

Proprietary/Fiduciary Fund:

TC 191	Establish accrued interest on Bond/COP sold – Cash in Treasury
TC 504	Establish/adjust payable/original issue discount/original issue premium for Bond/COP
TC 507	Establish accrued interest on Bond/COP sold
TC 511	Original discount/premium/prepaid insurance for Bonds/COP
TC 512	Establish/adjust matured Bond/COP coupon payable
TC 513	Payment of accrued interest on Bond/COP
TC 514	Record prepaid insurance/deferred outflows for Bond/COP
TC 516	Write-off Deferred Out/inflows and discount on bonds (advanced refundings/calls)
TC 517	Write-off original issue premium on Bond/COP (advanced refundings/calls)

Government-Wide Fund:

TC 504	Establish/adjust payable/original discount/original premium for Bond/COP
TC 514	Record prepaid insurance for Bond/COP
TC 516	Write-off various Bond/COP costs (advanced refundings/calls)
TC 517	Write-off original issue premium on Bond/COP (advanced refundings/calls)

Accreted Interest:

Proprietary/Fiduciary Fund/Government-wide:

TC 524	Establish/adjust accreted interest payable

Debt Service Principal and Interest:

Proprietary/Fiduciary Fund/Government-wide:

TC 528	Reduce liability for amount of principal paid for Bond/COP

Call or Refunding Related Transactions:

Proprietary/Fiduciary Fund/Government-wide:

TC 516	Write-off various Bond/COP costs
TC 517	Write off Bond/COP premium

Amortization:

Proprietary/Fiduciary Fund/Government-wide:

TC 520	Amortize prepaid insurance/original discount/deferred outflows
TC 523	Amortize original issue premium

Arbitrage Liability:

Proprietary/Fiduciary Fund/Government-wide:

TC 526	Establish/adjust arbitrage payable

Accrued Interest Payable:

Proprietary/Fiduciary Fund/Government-wide:

TC 437	Accrue interest payable at June 30

Reclassify Portion of Bond/COP Liability to Current Liability:

Proprietary/Fiduciary Fund/Government-wide:

TC 475	Set up current liability
TC 475R	Reduce noncurrent liability

Reclassify Restricted Assets:

Governmental/Proprietary/Fiduciary Fund:

TC 474	Report restricted assets
TC 474R	Reduce unrestricted asset account

DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT: Accounting and Financial Reporting		**Number:** 15.65.20
DIVISION: Chief Financial Office		**Effective date**: March 25, 2014
Chapter: Accounting and Reporting		
Part: Arbitrage		
APPROVED: George Naughton, Chief Financial Officer		Signature on File

PURPOSE: This policy provides guidance on accounting and financial reporting for arbitrage rebate liabilities.

AUTHORITY:
ORS 291.015
ORS 293.590
FASB Statement No. 5
GASB Statement No. 34
GASB 62
Internal Revenue Code Section 148

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

DEFINITIONS: **Arbitrage rebate payable** represents amounts due to the Internal Revenue Service for interest earned on unspent bond or COP proceeds that exceeds legally allowable returns.

Interest paid on most debt issued by the state is exempt from federal income tax. Because of this, bond and certificate of participation (COP) holders are willing to accept a lower interest rate than they would for taxable debt. The state may temporarily reinvest the proceeds of such debt in higher-yielding taxable securities, especially during construction projects. The federal tax regulations refer to the practice of taking advantage of the interest differential as arbitrage and require the state to rebate the excess interest earnings.

POLICY:

101. Agency management must ensure the proper accounting and reporting of arbitrage rebate liabilities.

102. Record arbitrage rebate liabilities as they are incurred or at least annually (at fiscal year end).

103. Report arbitrage rebate payments and/or estimated accruals as a reduction of revenue, even when the payments and/or accruals for rebatable arbitrage are greater than investment income for the fiscal year.

104. Complete an annual certification of compliance with federal arbitrage rebate requirements.

PROCEDURE:

Recording Arbitrage Rebate Payable

105. Record rebate payments due within one year in GL 1619, Arbitrage Rebate Payable-Current. Record amounts that are due in more than one year in GL 1719, Arbitrage Rebate Payable.

    a. Account for an arbitrage liability incurred by a **proprietary fund** within the accounts of that fund.

    b. Account for an arbitrage liability incurred by **governmental funds** (for general government purposes) in the **government-wide reporting fund**.

106. The entries to record arbitrage rebate payable are the same for proprietary funds and the government-wide reporting fund.

T-code 526: To record the full amount of the arbitrage rebate liability using comptroller object 0800 – Interest on Investments.

DR 3200 GAAP Revenue Offset (C/O 0800)	50,000	
CR 1719 Arbitrage Rebate Payable		50,000

T-code 475R: To reclassify the current portion of the arbitrage rebate liability by decreasing the noncurrent liability account.

DR 1719 Arbitrage Rebate Payable	10,000	
CR 2951 System Clearing General Ledger		10,000

TC 475: To reclassify the current portion of the arbitrage rebate liability by increasing the current liability account.

DR 2951 System Clearing General Ledger	10,000	
CR 1619 Arbitrage Rebate Payable-Current		10,000

Certification of Compliance

107. Except for agencies described in paragraph 109, agencies with outstanding tax-exempt debt prepare an annual certification of compliance with the federal arbitrage rebate requirements that includes the following items:

    a. The current and noncurrent portions of the arbitrage rebate liability attributable to each outstanding debt series as of June 30 of the fiscal year covered by the certification. The amounts per the certification should agree in total to the current and noncurrent arbitrage rebate liabilities recorded in the agency's accounting records.

    b. The outstanding debt series and the actual arbitrage rebate payments (including penalties, if any) made during the fiscal year covered by the certification.

    c. The name of the individual or firm that prepared or confirmed the arbitrage rebate calculations.

d. The signature of the agency's director or chief financial officer, certifying that the agency has (1) prepared the arbitrage rebate calculations and made arbitrage rebate payments consistent with federal arbitrage rebate requirements and (2) accounted for arbitrage rebate liabilities and payments according to this policy.

108. Agencies file the certification of compliance with Statewide Accounting and Reporting Services (SARS) no later than October 31 following the fiscal year covered by the annual certification. SARS forwards a copy of each certification to the State Treasurer's Office after confirming the certification meets the requirements of this policy (*see example of certification at end of policy*).

109. Agencies that have only COPs issued *after* 1989 and/or Lottery Revenue Bonds issued *after* 1997 are not required to file an annual certification. The Capital Finance Section of Budget and Management will file the certification on their behalf.

Financial Statement Reporting

110. SARS reports arbitrage rebate payable in the government-wide statement of net assets and in the proprietary funds balance sheet as a current and noncurrent liability.

111. In the government-wide statement of activities, SARS reports investment income (reduced by arbitrage rebate payments and accruals) as program revenue in the operating grants and contributions column. In the proprietary funds statement of revenues, expenses and changes in fund net assets, SARS reports payments and accruals of arbitrage rebates as reductions to investment income in the nonoperating revenues/expenses section of the statement.

Disclosure Requirements

112. At fiscal year end, agencies disclose changes in their arbitrage rebate liabilities (including beginning balance, increases, decreases, and ending balance) by completing the debt disclosure package.

Example of Arbitrage Certification

Agency Letterhead

Date*

DAS – Chief Financial Office
Statewide Accounting and Reporting Services (SARS)
155 Cottage Street NE, U50
Salem, OR 97301-3969

RE: FY 20xx Annual Certification of Compliance with Federal Arbitrage Requirements

The ___*[name of agency]*____currently has outstanding tax-exempt debt subject to the federal tax code and regulations regarding arbitrage rebate.

SECTION ONE – Arbitrage Rebate Liability: The agency's outstanding debt series subject to the federal arbitrage rebate provisions and the most recent estimate of the agency's arbitrage rebate liability (both current and noncurrent) as of June 30, 20xx.

	Bond or COP Series	Current Liability	Noncurrent Liability
1.		$	$
2.			
3.			
	Total liability	$	$

SECTION TWO – Actual Arbitrage Rebate/Penalty Payments: The debt series and the amount of arbitrage rebate (including penalties, if any*) actually paid* during fiscal year 20xx.

	Bond or COP Series	Rebate/Penalty Paid
1.		$
2.		
3.		

The calculations of the actual payments listed in Section Two were prepared by__*[independent qualified firm]* ***OR*** were reviewed and confirmed by ______*[independent qualified firm]*__.

SECTION THREE – Certification: I certify that ___*[name of agency]*__has:

- Prepared the arbitrage rebate calculations and made arbitrage rebate payments in compliance with the federal tax code and applicable regulations; and

- Accounted for the estimated arbitrage rebate liability and actual payments according to *OAM 15.65.20 – Arbitrage.*

______________________________ ________________
Director or Chief Financial Officer Date

**Due to SARS no later than October 31 following the end of the fiscal year.*

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Reporting	**Number:**	15.65.30
Division:	Chief Financial Office	**Effective date:**	January 22, 2018
Chapter:	Accounting and Financial Reporting		
Part:	Debt Refunding		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for refunding of long-term debt, including bonds and certificates of participation.

AUTHORITY:
ORS 293.590
GASB Statement No. 7
GASB Statement No. 23
GASB Statement No. 34
GASB Statement No. 38
GASB Statement No. 65

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS:

Debt refunding: The State issues debt and uses the proceeds to repay previously issued debt.

Current refunding: The State uses the proceeds of refunding debt within 90 days of issuance to repay previously issued debt.

Advanced refunding: The State places the proceeds of the refunding debt with an escrow agent, who invests them until they are used later to make future principal and interest payments on the old debt.

Legal defeasance of debt: This situation occurs in an advanced refunding, when the trustee of the escrow account becomes legally obligated for the refunded debt.

In-substance defeasance: This situation occurs in an advanced refunding, when the debt is considered defeased for accounting and reporting purposes even though *legal* defeasance has not occurred. Debt is considered defeased "in-substance" if all of the following conditions apply:

a. The placement of the resources in escrow is irrevocable.

b. Escrow resources can be used only for the scheduled debt service payments on the old debt.

c. The possibility of the State having to make future payments on that debt is remote.

d. All escrow resources are monetary and essentially risk-free.

e. Cash flows approximately coincide as to timing and amount with scheduled debt service payments.

Click here for other **definitions**.

POLICY:

101. Agency management must ensure the proper accounting and reporting of debt refunding transactions in accordance with generally accepted accounting principles (GAAP) and the official statements.

102. Annually, agencies submit disclosure packets to Statewide Accounting and Reporting Services (SARS) with all information needed to properly report and disclose debt refundings in the Comprehensive Annual Financial Report (CAFR). Agencies that issue separate audited financial statements must include all required disclosures related to refunded bonds and certificates of participation in the notes to their financial statements.

PROCEDURES:

Reporting Refunding of General Government Debt

103. When accounting for a refunding of general government debt, report the *proceeds* of the new debt and the *payment* of funds to the escrow agent for the old debt in the applicable governmental fund. Keep the type of debt consistent with the GAAP fund that reports the debt. For example, if a general obligation bond refunds a certificate of participation (COP), the accounting for the general obligation bond, including future payments, should occur in GAAP Fund 2003 General Obligation Bond Fund rather than GAAP Fund 2002 *Certificates of Participation Fund*. Report the debt, itself, in the government-wide reporting fund.

Accounting for Refunding of General Government Debt

104. Issuance of Refunding Debt. Accounting for a debt refunding closely parallels the accounting for original issue debt. The following entries record the issuance of refunding bonds and the payment of the proceeds to the escrow agent.

Debt Service Fund

TC 190: To record face value of bonds sold in a governmental fund.

DR 0065 Unreconciled Deposit	5,200	
CR 3100 Rev Cntrl-Cash (C/O 1505 Proceeds of Refund Debt)		5,200

TC 190R: To record refunding bond discount in a governmental fund.

DR 3100 Revenue Control-Cash (C/O 1508 OID-Bonds)	150	
CR 0065 Unreconciled Deposit		150

If bonds are refunded at a premium, use TC 190 and C/O 1510 OIP-Bonds to record that premium.

TC 167R: To record underwriter's discount ($50) and bond issuance costs ($30).

DR 3500 Expenditure Control-Cash (C/O 4050 Bond Costs)	50	
CR 0065 Unreconciled Deposit		50

Note: *Because DAS managed the bond refunding, it will bill agencies for their portion of the costs of issuance ($30). Agencies record the expense when paying the invoice using the T-codes provided by DAS. (Use Comp Object 4050 Bond Costs)*

TC 167R: To record payment to escrow agent from refunding bond proceeds.

DR 3500 Expend Cntrl Cash (C/O 7050 Refund Pmt to Escrow)	5,000	
CR 0065 Unreconciled Deposit		5,000

105. Use comptroller object 7050, *Refund Payment to Escrow Agent*, to report proceeds from a refunding debt issue that are paid to an escrow agent to refund the old debt. Use this comptroller object even if the actual payment is made directly by the counterparty to the escrow agent.

106. Use comptroller object 4051, *Bond Refund Debt Payment* (or 4056 for COPS), if an agency pays funds to an escrow agent from sources other than the refunding debt proceeds (such as from a bond-sinking fund or from other agency resources). In this situation, the payment to the escrow agent is recorded as a debt service expenditure rather than an other financing use.

Debt Service Fund

TC 167R: To record payment to escrow agent from sources other than refunding debt proceeds.

DR 3500 Expend Cntrl–Cash (C/O 4051 Bond Refund Debt Pmt)	1,000	
CR 0065 Unreconciled Deposit		1,000

107. Recording Liability for Refunding Debt*.* For general government debt, record the new refunding debt liability in the government-wide reporting fund. Record the bonds payable at face value unless they are zero coupon or deep discount bonds. Note that this entry also uses the same comptroller objects as the ones used to record the debt issuance above. In effect, the other financing source in the governmental fund is offset when the governmental funds are combined with the government-wide reporting fund to prepare the government-wide financial statements.

Government-wide Reporting Fund

TC 504: To record liability for new bonds in the government-wide reporting fund.

DR 3200 GAAP Rev Offset (C/O 1505 Proceeds of Refund Debt)	5,200	
CR 1714 Bonds Payable-Noncurrent		5,200

TC 504R: To record original issue discount in government-wide reporting fund.

DR 1712 Discount on Bonds Sold	150	
CR 3200 GAAP Revenue Offset (C/O 1508 OID-Bonds)		150

If your refunding bond sold at a premium, use TC 504, C/O 1510 OIP-Bonds and G/L 1713 Premium on Bonds Sold.

108. Removal of Old (Refunded) Debt. In addition to recording the new debt, the agency must remove the old debt from the accounting records, including any unamortized discount/premium or deferred inflows/outflows from gain/loss on refunding related to the old debt. Note that the comptroller objects used in these entries must exactly offset the comptroller objects used in the entries to record payments to the escrow agent. Some of the entries use comptroller object 7050 Refund Payment to Escrow, while other entries use comptroller object 4051 Bond Refund Debt Payment (see paragraphs 104, 105, and 106 above).

Government-wide Reporting Fund

TC 528: To eliminate defeased debt from government-wide reporting fund.

DR 1714 Bonds Payable - Noncurrent	5,000	
CR 3600 GAAP Expend Offset (C/O 7050 Refund Pmt to Escrow)		5,000

DR 1714 Bonds Payable-Noncurrent	500	
CR 3600 GAAP Expend Offset (C/O 4051 Bond Refund Debt Pmt)		500

TC 514R: To eliminate discount related to defeased bonds from government-wide reporting fund.

DR 3600 GAAP Expend Offset (C/O 4051 Bond Refund Debt Pmt)	160	
CR 1712 Discount on Bonds Sold		160

109. Deferred Gain or Deferred Loss on Refunding. Agencies must also record the deferred gain or deferred loss on the refunding. This is the difference between the reacquisition price and the net carrying amount. Calculate the deferral as follows:

Face value of refunded debt	5,500
Discount on refunded debt	(160)
Net carrying amount	5,340
Net proceeds to escrow agent	5,000
Additional payment to escrow agent	1,000
Reacquisition price	6,000
Deferred Loss on Refunding	(660)

Government-wide Reporting Fund

TC 514: To record deferred loss on refunding.

DR 1000 Deferred Outflow-Loss on Debt Refunding	660	
CR 3600 GAAP Expend Offset (C/O 4051 Bond Refund Debt Pmt)		660

If the refunding resulted in a deferred gain on refunding it would be recorded with TC 523 and GL 1851 Deferred Inflows-Gain on Debt Refunding.

Note: *If the refunded debt is deep discount debt and the net proceeds to escrow agent equal the face value of the refunded debt, to calculate the carrying amount agencies must add the associated accreted interest payable (GL 1709) to the outstanding payable balance of the refunded debt. The face value of the refunded debt would not be considered in the calculation*

110. Amortize discounts and premiums on new refunding debt issues the same as for any other debt issue. Amortize the deferred gain or deferred loss, together with any unamortized balances from prior refundings, over the shorter of the life of the new debt or the remaining life of the old debt. Amortize all balances in a systematic and rational manner.

Refunding Debt in Proprietary Funds

111. Agencies record refunding debt transactions in proprietary funds using the same transaction codes and accounts as used in the examples above; however, *all* entries are made within the applicable proprietary fund. The GAAP offset accounts eliminate the refunding proceeds, payments to escrow agent, premiums, and discounts within the proprietary fund for financial reporting purposes rather than in the government-wide reporting fund, as is the case for governmental funds. The transaction codes and accounts used in the example above to record deferred gain or loss on refunding are also made within the applicable proprietary fund.

Financial Reporting

112. Governmental funds financial statements use the current financial resources measurement focus and modified accrual basis of accounting. As a result, these statements reflect the proceeds from the issuance of refunding debt as other financing sources and any proceeds used to refund old debt as other financing uses. Resources from sources other than refunding debt proceeds used to refund old debt are recorded as debt service expenditures. Gross premiums and discounts are recorded as other financing sources and other financing uses, respectively. All issuance-related costs are treated as expenditures of the governmental fund.

113. Proprietary funds financial statements use the economic resources measurement focus and full accrual basis of accounting. As a result, these statements do not reflect refunding debt proceeds and payment of the proceeds to an escrow agent as revenues and expenses. The GAAP offset accounts eliminate these items for financial reporting purposes.

114. In an advance refunding, the trustee of the escrow account often legally becomes obligated for making all future payments related to the refunded debt, meaning the state is only contingently liable for the debt's repayment. Since the state does *not* report contingent obligations as liabilities, the refunded debt and any related unamortized items, as well as the related escrow assets held in trust for its repayment, are not reported in the financial statements (legal defeasance).

115. Sometimes debt is considered defeased for accounting and reporting purposes even though legal defeasance has not occurred. In most of these cases, the placing of the refunding debt proceeds in escrow with a trustee is considered *economically equivalent* to a legal defeasance. Because accounting and financial reporting emphasize *economic substance* over *legal* form, the state treats this type of situation as an in-substance defeasance. If all of the conditions listed in the *Definitions* section above are met, the state does not report the refunded debt and any related unamortized items, in the financial statements.

Disclosure Requirements

116. The notes to the financial statements must include a general description of debt refunding transactions. In the year of the refunding, disclosures must include the difference between the cash flows required to service the old debt and the cash flows required to service the new debt. The notes must also disclose the economic gain or loss resulting from the transaction.

   a. When measuring the difference between the two cash flows, add additional cash used to complete the refunding (e.g., for issuance costs or payments to the escrow agent) paid from resources other than proceeds of the new debt to the new debt cash flows. Exclude accrued interest received at the bond issuance date from the new debt cash flows.

b. Economic gain or loss is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

117. In all periods following an advance refunding for which debt defeased in-substance remains outstanding, the notes to the financial statements must include the amount of that debt, if any, outstanding at year-end.

118. All disclosures required by this policy should focus on the primary government – specifically, the governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate. Information about the government's discretely presented component units should be presented if deemed essential to understanding the primary government’s relationship with the component unit. If circumstances exist in which aggregate disclosures are misleading, the state may make additional or separate disclosures by fund.

DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Financial Reporting	**Number:** 15.70.00
DIVISION:	Chief Financial Office	**Effective date**: April 16, 2009
Chapter:	Accounting and Financial Reporting	
Part:	Compensated Absences	
APPROVED:	George Naughton, Chief Financial Officer	Signature on file

PURPOSE: This policy provides guidance on accounting and financial reporting for compensated absences.

AUTHORITY: GASB Statement No. 16
GASB Statement No. 34
GASB Interpretation No. 6

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

DEFINITIONS: **Compensated absences** are those absences for which employees are paid, such as vacation leave, sick leave, compensatory time, or personal business leave. For purposes of this policy, the term compensated absences is strictly limited to employee leave that is *attributable to services already rendered* and is not contingent on a specific event that is outside the control of the employee or employer. Vacation time and compensatory time meet this definition. Both types of leave are attributable to past services and, if not used, are fully reimbursable to the employee at termination or retirement.

The liability for compensated absences does *not* include sick leave or personal business time. Paid time off for earned sick leave is contingent on a specific event (illness) that is outside the control of the employer and employee. Therefore, sick leave is recorded as an expenditure/expense in the period in which the illness occurs. Unused personal business time is recorded as an expenditure/expense in the period used because this annual benefit is not attributable to past services and lapses at each June 30.

POLICY:

101. Agency management is responsible for ensuring that the agency's accounting and reporting for compensated absences is appropriate.

102. For financial reporting purposes, agencies must record a liability for compensated absences at fiscal year end.

PROCEDURES:

Determining the Liability

103. The liability reported at fiscal year end is calculated by multiplying each employee's hourly rate, as of the balance sheet date, times the employee's accumulated hours of vacation and compensatory time. The liability also includes salary-related payments that are directly and incrementally related to the amount of salary paid to the employee. Typically, salary-related payments include the employer's share of social security taxes, Medicare taxes, employer contributions to retirement plans, and mass transit taxes. The total liability for each agency is the accumulated total for all employees of the agency.

104. In July of each year, Statewide Accounting and Reporting Services (SARS) section provides data to agencies for calculating and recording their liability for compensated absences. In addition, SARS performs an annual calculation to determine the appropriate percentages for allocating the liability between current and noncurrent.

Fund Accounting

105. **Governmental fund types** report a current liability for compensated absences when the balance owed to the employee is "due and payable." In governmental funds, compensated absences are considered due and payable *only* when the employee terminates. Because the amount due and payable as of each June 30 is insignificant, agencies should not record a liability for compensated absences in the governmental funds.

106. Agencies are required to record a liability for compensated absences in the **government-wide reporting fund**. For government-wide reporting purposes, the current portion is that portion expected to be used within one year of the balance sheet date. Therefore, two entries may be needed in the government-wide reporting fund: one entry to record the current portion of the compensated absence liability, and another to record the noncurrent portion. If all leave balances are expected to be used within one year of the balance sheet date, the entire liability recorded in the government-wide reporting fund is reported as current.

107. Compensated absences directly related to and expected to be paid from **proprietary funds** or **fiduciary funds** should be reported in the accounts of those funds. Agencies record the portion of the liability that is expected to be used within one year of the balance sheet date as a current liability. The remainder is recorded as a noncurrent liability.

108. Agencies use the following entries to record the current and noncurrent portions of the compensated absences liability:

TC 440: Record the current portion of vacation payable for all fund types.

DR 3600 GAAP Expenditure Offset-Personal Services	1,000	
CR 1605 Vacation Payable - Current		1,000

TC 442: Record the long-term portion of vacation payable for all fund types.

DR 3600 GAAP Expenditure Offset-Personal Services	1,000	
CR 1718 Vacation Payable -Noncurrent		1,000

Financial Reporting

109. The accrual entries illustrated above to recognize the liability for compensated absences in the state's annual financial statements are required by generally accepted accounting principles (GAAP). For budgetary accounting, the expenditure/expense for vacation pay and compensatory time is recognized *only* when actually paid to the employee.

110. The following information related to liabilities for compensated absences must be disclosed in the annual financial statements:

    a. Beginning and end of year balances

    b. Increases and decreases (presented separately) during the year

    c. The portion of each liability that is due within one year of the financial statement date

    d. Which governmental funds typically have been used to liquidate long-term liabilities in prior years

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT: Accounting and Reporting		**Number:** 15.75.00
DIVISION: Chief Financial Office		**Effective date:** July 1, 2012
Chapter: Accounting and Financial Reporting		
Part: Claims and Judgments		
Section:		
APPROVED: George Naughton, Chief Financial Officer		Signature on file

PURPOSE: This policy provides guidance on accounting and financial reporting for claims and judgments payable in accordance with generally accepted accounting principles (GAAP).

AUTHORITY: **ORS 293.590**
NCGA Statement No. 4
GASB Statement No. 10

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

DEFINITIONS: A **claim** is a demand for payment of damages, or a policy benefit for insured risks resulting from the occurrence of an event such as personal injury or property damage.

A **judgment** is an obligation created by a decision of the court.

POLICY:

101. Agency management must ensure the proper accounting and reporting of claims and judgments.

102. The Risk Management Division of the Department of Administrative Services manages claims for tort liability, property damage, and workers' compensation centrally for state agencies. Risk Management reports an estimated liability that includes incurred but not reported claims for these charges. Risk Management allocates costs to agencies based on historical costs of claims.

103. Agencies must provide information about claims and judgments payable by completing the applicable general disclosure forms included in the year-end General Disclosures package. Agencies that prepare audited financial statements must report and disclose applicable information in their own financial statements.

PROCEDURE:

104. Accrue a liability for claims and judgments when it is probable that the agency has incurred a loss and can reasonably estimate the amounts in question. If the estimate of loss is a range of possible amounts, with no amount in the range more probable than any other, accrue the minimum of the range. In this case, disclose the range of possible loss amounts in the notes to the financial statements.

105. If the possibility that the agency has incurred a loss is probable or reasonably likely, but the agency cannot reasonably estimate the amount, then disclose the nature of the contingent loss in the notes to the financial statements. Include in the disclosure either a range of possible losses, or a statement that no estimate of the amount of loss can be made.

106. Do not report claims and judgments in governmental funds until they are due and payable. Record governmental fund obligations not payable from current financial resources in the **government-wide reporting fund**, so that the government-wide financial statements will include them.

107. Record the noncurrent portion of obligations for claims and judgments payable in general ledger account 1717, Claims and Judgments Payable. At fiscal year end, reclassify the current portion of claims and judgments payable to general ledger account 1617, Claims and Judgments Payable-Current using transaction code 475.

Disclosure requirements

108. Notes to the financial statements should include the following information about claims and judgments payable:
   a. beginning- and end-of-year balances (regardless of whether the government-wide financial statements present prior-year data)
   b. increases and decreases (separately presented)
   c. the amount that is due within one year of the statement date
   d. which governmental funds typically have liquidated claims and judgments payable in prior years
   e. the range of possible loss amounts, if applicable (see paragraph 104)
   f. the nature of any contingent loss for which the amount of the possible loss cannot be reasonably estimated (see paragraph 105)

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Financial Reporting	**Number:**	15.77.00
DIVISION:	Chief Financial Office	**Revision date:**	July 1, 2010
Chapter:	Accounting and Financial Reporting		
Part:	Pollution Remediation Obligations		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for pollution remediation obligations, including accounting for recoveries from insurance and/or other responsible or potentially responsible parties related to remediation.

AUTHORITY: **ORS 293.590**
Governmental Accounting Standards Board (GASB), Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

This policy does not apply to the following:

a. Pollution prevention or pollution control obligations

b. Landfill closures and postclosure care obligations

c. Future pollution remediation upon retirement of an asset

d. Capital asset impairments under GASB Statement No. 42

e. Non-exchange transactions, such as brownfield redevelopment grants, under GASB Statement No. 33

DEFINITIONS: **Pollution:** The presence of a substance in the environment that because of its chemical composition or quantity prevents the functioning of natural processes and produces undesirable environmental and health effects. (U.S. Environmental Protection Agency)

Pollution remediation obligation: An obligation to address the current or potential detrimental effects of **existing** pollution by participating in remediation activities. Examples: obligations to clean up spills of hazardous wastes or hazardous substances; obligations to remove contamination such as asbestos.

POLICY:

101. Agency management must ensure proper accounting and reporting of pollution remediation liabilities. When an agency knows or suspects pollution may exist at a site, it must take steps to determine whether an obligating event has occurred that requires accounting for a pollution remediation obligation. Agencies must make the identification of obligating events a normal part of their procedures when acquiring, remodeling, or cleaning up property.

102. Pollution remediation activities include the following:

   a. Pre-cleanup activities, such as site assessments, design of remediation plans, and feasibility studies

   b. Actual cleanup activities, such as neutralization, containment, removal and disposal of pollutants, and site restoration

   c. External government oversight and enforcement-related activities (such as work performed by a state or federal environmental regulatory authority) dealing with the site and chargeable to the agency

   d. Ongoing post-remediation monitoring that the agency is required to perform

103. Outlays for pollution remediation include all direct costs related to the cleanup activities, such as payroll and benefit costs, equipment and facilities, materials, and legal and other professional services. In addition, agencies may include estimated indirect outlays, such as general overhead.

104. The following outlays are not part of performing pollution remediation and are not included in the remediation liability: fines, penalties, toxic torts, workplace safety costs, and litigation support involved with potential recoveries from insurance and/or other responsible or potentially responsible parties.

105. Remediation obligations generally result in expense recognition and reporting of pollution remediation liabilities. In certain instances, an obligation to participate in remediation activities may result in recognition of capital assets.

PROCEDURES:

Obligating Events

106. When an agency knows or believes that pollution exists at a site, it must determine if any of these five events has occurred:

   a. Pollution poses an imminent danger to the public or environment and the agency has little or no choice but to take immediate action. *Examples: cleanup of hazardous wastes or hazardous substances.*

   b. The agency violates a pollution prevention permit or license, such as Resource Conservation and Recovery Act (RCRA) or similar permits under Federal or state law.

   c. The agency is named (or evidence indicates it will be named) by a regulator as responsible or potentially responsible for cleaning up pollution or for sharing costs. *Example: the Superfund law requires that the state pay or ensure payment of 10% of the cost of remedial* *action and 100% of the cost of operations and maintenance at sites that are privately owned or operated and for which no financially viable party can be found.*

d. The agency is named (or evidence indicates that it will be named) in a lawsuit to compel the agency to participate in remediation.

e. The agency legally obligates itself or begins to clean up pollution or perform post cleanup activities.

107. If none of the above events has occurred, the agency is not required to calculate or report a pollution remediation liability. However, if one or more of the events has occurred and the agency can estimate a range of potential outlays, it must calculate and report a liability in the financial statements.

108. The agency is only required to estimate and report liabilities for remediation activities that can be *reasonably* estimated. Example: if in the early stages of pollution remediation the agency can reasonably estimate only legal fees and site testing costs, it accrues only those costs. Once the agency can reasonably estimate additional remediation costs, it accrues those costs at that time. (See the attached flowchart.)

Measurement of the Obligation

109. Pollution remediation liabilities are measured at their current value. Because settlement of pollution remediation activities is not always possible in the current period, settlement may involve future events. A remediation liability, therefore, is based on reasonable and supportable assumptions about future events that may affect the eventual settlement of the liability. GASB Statement No. 49 uses an “expected cash flow” measurement technique. This technique directs agencies to estimate the ranges of potential outlays to remediate the pollution.

Example: Potential pollution remediation outlays range from \$150,000 with a 20% probability to \$500,000 with a 10% probability. The most probable outlay expected is \$320,000 with a probability of 70%. Calculation:

$$((\$150,000 \times 0.2) + (\$500,000 \times 0.1) + (\$320,000 \times 0.7)) = \$304,000$$

110. When calculating the liability using the expected cash flow technique, agencies need to consider expected recoveries from insurance policies and/or other responsible or potentially responsible parties. An anticipated recovery is included in the measurement by reducing the remediation expense and affecting the liability as follows:

a. If the expected recoveries are not yet realized (received) or realizable (cost recovery agreed to by the other parties), the recoveries reduce the liability.

b. If the expected recoveries are realized or realizable, recognize them separately from the liability as assets (for example, as cash or a receivable).

Example: Using the above liability of \$304,000, the agency expects to recover, but has not yet realized, \$40,000 from an insurance policy. In this case, reduce the liability and remediation expense to \$264,000.

If the agency has realized the insurance recovery, the liability would remain at \$304,000, but the expense would decrease and cash would increase by \$40,000.

111. An insurance recovery generally is realizable when the insurer admits or acknowledges coverage. If the agency receives or expects to receive recoveries in periods following the completion of all remediation work and a liability no longer exists, it records the transaction as a reduction in expense and an increase to cash or accounts receivable.

112. Agencies must adjust their pollution remediation liabilities at each fiscal year end, using the latest available information to estimate the remaining outlays required to complete their projects.

Accounting for the Obligation

113. When an agency determines a pollution remediation obligation exists and can make a reasonable and supportable estimate of expected outlays, it must establish a noncurrent liability. The agency adjusts the remediation obligation and expense at each subsequent year-end in the government-wide reporting fund and proprietary funds.

T-code 457: To accrue or adjust the long-term liability:

DR 3600 GAAP Exp Offset (C/O 4690 Pollution Remed Outlay)	1,000	
CR 1780 Pollution Remediation Obligation - Noncurrent		1,000

114. In the government-wide reporting fund and proprietary funds, reclassify as a current liability the portion of the liability expected to be paid within one year of the balance sheet date.

T-code 475R:

DR 1780 Pollution Remediation Obligation - Noncurrent	500	
CR 2951 System Clearing General Ledger		500

T-code 475:

DR 2951 System Clearing General Ledger	500	
CR 1680 Pollution Remediation Obligation – Current		500

115. If an agency expects to receive recoveries from insurance policies and/or other responsible or potentially responsible parties, it should consider the recoveries when establishing the pollution remediation obligation.

T-code 457R: To record an expected, but not yet realized or realizable, recovery in government-wide and proprietary funds:

DR 1780 Pollution Remediation Obligation	1,000	
CR 3600 GAAP Expenditure Offset (C/O 4690)		1,000

T-code 172: To record a realized (received) recovery in governmental and proprietary funds:

DR 0065 Unreconciled Deposit	1,000	
CR 3500 Expenditure Control – Cash (C/O 4690)		1,000

T-code 904: To accrue a realizable recovery (a receivable) in governmental and proprietary funds:

DR 0503 Accounts Receivable – Other Unbilled	1,000	
CR 3505 Expenditure Control-Financial Stmt Accrual (C/O 4690)		1,000

T-code 172: To record recoveries received after the pollution remediation work has been completed and for which a remediation liability no longer exists:

DR 0065 Unreconciled Deposit	1,000	
CR 3500 Expend Control-Cash (C/O 7511 Ins Recovery)		1,000

Capitalization of Pollution Remediation Outlays

116. Normally, an agency accounts for the estimated costs to acquire facilities and equipment that will be used exclusively in pollution remediation activities as a component of the pollution remediation obligation. The eventual purchase of the facilities and equipment is recorded as a reduction of the previously recognized liability for pollution remediation outlays.

117. However, an agency capitalizes pollution remediation outlays in the government-wide reporting fund and proprietary funds when goods and services are acquired under the following circumstances:

a. *To prepare property in anticipation of a sale*. The agency may not capitalize amounts that would result in a carrying value that exceeds the fair market value upon completion of the remediation.

Example: The agency purchased a building and land for $100,000 with the expectation of cleaning up the site for resale, at expected outlays of $130,000 to $170,000. No amounts within the range were considered better estimates. The agency has a potential buyer for $245,000. Pollution remediation measurement:

(($130,000 x 0.5) + ($170,000 x 0.5)) = $150,000

The purchase price and expected pollution remediation outlays ($100,000 + $150,000) exceed the fair market value ($245,000) by $5,000. Because the agency cannot capitalize amounts exceeding the fair market value, it records a pollution remediation liability and expense for $5,000. No amount is recorded for the expected pollution remediation to be capitalized; those outlays are not recognized until incurred.

b. *To prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated.* The agency may capitalize only pollution remediation outlays required to place the property into its intended location and condition for use.

NOTE: For outlays under (a) and (b), capitalization is appropriate only if the outlays take place within a reasonable period prior to the expected sale or following acquisition of the property.

c. *To restore a pollution-caused decline in service utility that was recognized as an asset impairment*. In this case, the agency capitalizes only the outlays necessary to place the asset into its intended location and condition for use. See **OAM 15.60.25**, *Capital Asset Impairments.*

d. *To acquire property, plant and equipment with an alternative use*. In this situation, the agency capitalizes outlays only to the extent of the estimated service utility that exists after remediation activities end. Example: the acquisition of land is generally considered a capital asset because, even after pollution has been remediated, land still has an alternative future use.

Financial Statement Reporting

118. The Statewide Accounting and Reporting Services (SARS) reports the costs associated with recognition of a pollution remediation obligation in the statement of activities (government-wide reporting fund) and statement of revenues, expenses, and changes in fund net assets (proprietary funds) as a program or operating expense, special item or extraordinary item.

119. The SARS reports the pollution remediation obligation in the statement of net assets (government-wide reporting fund) and the balance sheet (proprietary funds) as a current and/or noncurrent liability.

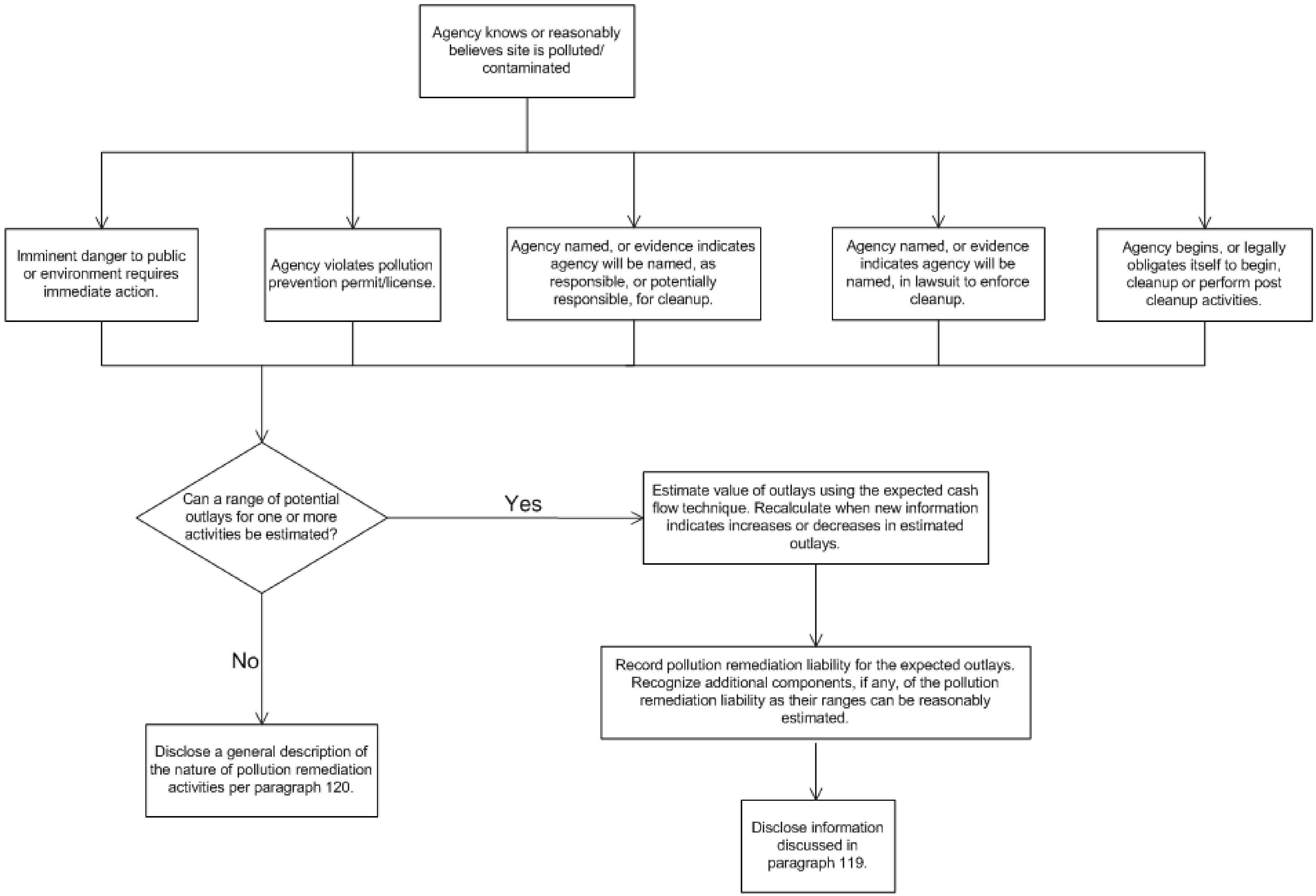
Disclosure Requirements

120. The SARS discloses pollution remediation activity in the state's financial statements. Agencies must provide the following information when completing the year-end General Disclosure forms.

- The nature and source of the reported pollution remediation obligations
- The amount of the estimated liability
- The methods and assumptions used to estimate the liability
- The potential for changes in the estimate due to external factors
- Estimated recoveries from insurance policies and/or other responsible or potentially responsible parties that reduce the liability

121. Agencies must also disclose a general description of the nature of the remediation activities for liabilities not yet recognized because they cannot be reasonably estimated.

FLOWCHART FOR EVALUATING POLLUTION REMEDIATION OBLIGATIONS



DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Reporting	**Number:** 15.80.00
DIVISION:	Chief Financial Office	**Effective date:** July 1, 2011
Chapter:	Accounting and Financial Reporting	
Part:	Commitments	
Section:		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file

PURPOSE: This policy provides guidance on accounting and financial reporting for commitments, including applicable disclosure requirements.

AUTHORITY:
ORS 293.590
NCGA Statement No. 1
NGCA Interpretation No. 6
GASB Statement No. 13
GASB Statement No. 54

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

DEFINITIONS: C**ommitment:** An existing arrangement to enter into future transactions or events; it represents an obligation not expected to be fully paid from current financial resources. Entering into a contract does not result in immediate recognition of a liability. Until performance under the contract has occurred, the contract represents a commitment. Examples include:

- Long-term construction contracts
- Long-term contractual obligations with suppliers for the future purchase of goods or services at specified prices or quantities
- Long-term contracts for personal services, equipment purchases, and systems development
- Other long-term arrangements such as operating leases, grants, loans

Encumbrance: A formal commitment of resources to purchase goods or services within the current biennium.

Operating lease: A type of lease agreement that does not transfer the risk of ownership to the lessee.

POLICY:

101. Agency management is responsible for the proper accounting and reporting of commitments.

102. Agencies must disclose significant commitments by completing the appropriate forms included in the yearend General Disclosures package. Agencies that prepare audited financial statements must disclose their own commitments in the notes to the financial statement.

103. Agencies should consider the encumbrance accounting criteria established in OAM 20.20.00 to determine if a long-term contract or other arrangement is more appropriately recorded as an encumbrance or disclosed as a commitment. Agencies must be careful to report the obligation only once. If the long-term contract or other arrangement is recorded as an encumbrance, do not also disclose it as a commitment.

PROCEDURES:

Construction Commitments

104. If your agency signs a long-term construction contract or issues a construction-related purchase order that covers an extended period and represents a significant dollar amount, and the obligation is unencumbered at the end of the reporting period, disclose the following information at yearend:

a. A description of the commitment

b. The dollar amount and basic terms of the commitment, including the amount spent to date and the amount remaining under the commitment

c. The funding source expected to liquidate the commitment (general funds, federal funds, lottery funds, or other funds)

Other Commitments

105. If your agency has significant loans, grant agreements, equipment purchase contracts, personal service contracts, or systems development contracts that are outstanding and unencumbered at the end of the reporting period, disclose the following information at yearend:

a. A description of the commitment

b. The dollar amount remaining under the agreement or contract

c. The funding source expected to liquidate the commitment

Operating Leases

106. If your agency has entered into significant noncancelable operating lease agreements as the lessee, disclose the following information at yearend:

a. Rental costs applicable to the current fiscal year.

b. Future minimum rental payments for each of the next five years and, thereafter, in five-year increments.

(NOTE: Do not consider a lease to be cancelable simply because it contains a "fiscal funding clause" which states that the lease is cancelable in the event funds are not appropriated to cover the required lease payments. The likelihood of the lease being canceled must be evaluated. The potential for cancellation of most government lease agreements is remote.)

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	**Number:**	15.85.00
Division:	Chief Financial Office	**Effective date:**	December 5, 2013
Chapter:	Accounting and Financial Reporting		
Part:	Fund Equities		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for fund balance and net position (equities). It also provides guidance on classifying fund balances in governmental funds.

AUTHORITY: **ORS 293.590**
GASB Statement No. 34
GASB Statement No. 46
GASB Statement No. 54
GASB Statement No. 63

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: **Fund balance:** The difference between the assets and liabilities reported in a governmental fund. Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

a. *Nonspendable fund balance* represents amounts that cannot be spent because they are either (1) not in spendable form (e.g., inventories, prepaid items, etc.) or (2) legally or contractually required to be maintained intact (e.g., the principal of a permanent fund).

b. *Restricted fund balance* results when constraints on the use of fund balance are either (1) externally imposed by creditors (e.g., by debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through the Oregon Constitution or by enabling legislation.

c. *Committed fund balance* represents amounts that are constrained to specific purposes imposed by formal action of the Legislature (legislation passed by the Legislature and approved by the Governor).

d. *Assigned fund balance* represents resources that are constrained by the state's intent to use them for a specific purpose, but are neither restricted nor committed. In general, assigned fund balance is the residual classification in all governmental funds, except the General Fund, and includes all remaining fund resources.

e. *Unassigned fund balance* is the residual classification for the General Fund.

Enabling legislation: Legislation that authorizes the state to assess, levy, charge, or otherwise mandate payment of resources from external resource providers *and* includes a legally enforceable requirement to use those resources only for the purposes specified in the legislation.

GAAP fund: Refers to the fund level used for financial reporting purposes. In R*STARS, each D23 detail fund rolls up to a pre-determined GAAP Fund.

Net position: The difference between the assets and liabilities reported in proprietary funds, fiduciary funds, and the government-wide financial statements. In the proprietary fund and the government-wide statements of net position, "net position" is comprised of three components:

a. *Net Investment in capital assets* is the difference between capital assets (net of accumulated depreciation) and the liabilities attributable to the acquisition, construction or improvement of those assets.

b. *Restricted net position* results when constraints on the use of fund equity is either (1) externally imposed by creditors (e.g., by debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through the Oregon Constitution or by enabling legislation. If some net position is restricted on a permanent basis (in perpetuity), this category is subdivided into expendable and nonexpendable.

c. *Unrestricted net position* represents the fund equity not classified as net investment in capital assets, or as restricted net position.

Fiduciary funds report net position as restricted for pension benefits; other postemployment benefits; external investment pool participants; or individuals, organizations, and other governments, depending on the GAAP fund.

Prior period adjustment: An adjustment made to correct a material error in a prior financial statement. It is not properly included in the results of operations for the current period, but rather is a direct adjustment to beginning fund equity.

Click here for other **definitions**.

POLICY:

101. Agency management is responsible for properly classifying and reporting fund equities.

102. Agencies must determine the appropriate fund balance classification for each governmental fund based on the GASB Statement No. 54 criteria described in Appendix A.

103. To comply with other financial reporting requirements related to equities, agencies must complete the appropriate forms included in the year-end General Disclosures package. These forms require disclosure of prior period adjustments, the effect of changes in accounting principles, changes in fund equity, restricted net position in proprietary funds, and the amount of debt related to capital assets.

PROCEDURES:

Governmental Funds

104. For governmental funds, refer to Appendix A of this policy to determine the appropriate fund balance classification.

105. Record nonspendable fund balances using the specific R*STARS transaction code established for each nonspendable general ledger account.

106. Classify the fund balance associated with loans receivable and advances to other funds as nonspendable fund balance in the GAAP General Fund only. Include the fund balance associated with loans receivable and advances to other funds in the appropriate fund balance classification (restricted, committed, or assigned) in the other governmental funds.

107. Classify the fund balance associated with inventories and prepaid amounts as nonspendable fund balance, unless inventories include property held for resale and the proceeds from the sales are restricted, committed or assigned to a specific purpose. In that case, the restricted, committed, or assigned fund balance classification takes precedence over the nonspendable fund balance category.

108. When establishing a D23 Fund Profile for a governmental fund, use one of the following two-digit G54 codes to indicate the appropriate fund balance classification :

     R1 – Fund balance restricted by federal grants, federal laws, or federal regulations
     R2 – Fund balance restricted by the Oregon Constitution
     R3 – Fund balance restricted by enabling legislation
     R4 – Fund balance restricted by debt covenants
     R5 – Fund balance restricted by donors or other external parties
     C1 – Committed fund balance
     A1 – Assigned fund balance
     U1 – Unassigned fund balance (GAAP General Fund only)

109. If more than one fund balance category applies to the resources accounted for in a D23 fund, select the category that comprises the majority of the resources for closing purposes. At year end, determine the proper allocation and reclassify to the other fund balance categories as needed using transaction codes 453 and 454.

110. In permanent funds (GAAP Fund 7505), fund balance is restricted by definition. Use transaction codes 453 and 454 to reclassify initial or additional permanent fund principal to the nonspendable category.

Proprietary Funds

111. Restricted net position is restricted assets reduced by the amount of any related debt. For example, if an agency holds restricted cash in a separate bank account to make the final debt service payment on a bond issue, the agency offsets the cash by the related debt, leaving no restricted net position to report.

Prior Period and Post Closing Adjustments

112. Use prior period and post closing adjustments to record the correction of a material error in a prior year's financial statement. If the error is discovered shortly after fiscal year end, before completion of the Comprehensive Annual Financial Report (CAFR), and the error is corrected

for CAFR reporting, Statewide Accounting and Reporting Services (SARS) will direct the agency to record a post closing adjustment to correct R*STARS. If discovery of the error does not occur in time to correct the CAFR, the agency must record a prior period adjustment to make the correction.

113. Examples of errors that could result in a prior period or post closing adjustment include:

a. Errors in mathematical calculations
b. Errors in application of an accounting principle, e.g., not accruing revenue that was measurable and available in a governmental fund type
c. Oversight or misuse of facts that existed when the financial statements were prepared
d. Change from an accounting principle that is not generally accepted to one that is generally accepted
e. Adjustments to revenues or expenditures in the current year that create material misstatements of the current period results of operations because the adjustments are attributable to prior period revenues or expenditures

114. Assume, for example, that an agency discovers after the close of Month 13 that it failed to accrue $10 million in federal revenue. The agency notifies SARS, and SARS makes an adjustment during compilation to report the revenue correctly in the CAFR. The agency receives and records the revenue in the current year during September. SARS will direct the agency to make a post closing adjustment to reconcile R*STARS to the CAFR.

TC 113: To correct a prior year understatement of revenue

DR 3200 Revenue GAAP Offset – C/O 0300 (Federal Revenue)	10,000,000	
CR 3062 Prior Year Post Closing Adjustment		10,000,000

115. Now, assume the agency did not discover the error in time for SARS to update the CAFR. In this case, the correcting entry would be the same, except the agency would post the credit to GL account 3060 - Prior Period Adjustment.

116. For financial reporting, GL account 3062 - Prior Year Post Closing Adjustment is reported as part of beginning fund equity, while GL account 3060 - Prior Period Adjustment is reported on a separate line as an adjustment to beginning fund equity. Agencies should make post closing adjustments only as directed by SARS since not all errors reported to SARS are actually incorporated into the CAFR. SARS notifies agencies of required post closing adjustments following completion of the CAFR, typically in January or February.

Changes in Accounting Principles

117. Changes in accounting principles occur when:

a. The state implements a new accounting standard.
b. The state decides to use an alternative accounting principle permitted by generally accepted accounting principles because it believes that the principle is preferable to the one previously used.
c. The state changes its application of an accounting principle.

SARS reports changes in accounting principles as direct adjustments to beginning fund equity, similar to prior period adjustments.

118. Use the following transaction codes to record post-closing adjustments, prior period adjustments, and changes in accounting principles:

113 Prior period adjustment – revenue
114 Prior period adjustment – expenditure
119 Prior period adjustment – expenditure G38 (comptroller objects 6000-6200)
124 Prior period adjustment – transfers-in
125 Prior period adjustment – transfers-out

Disclosure Requirements

119. SARS discloses governmental fund balance information at the statewide level in the CAFR. Required fund balance disclosures include:

a. For committed fund balance:
   - The government's highest level of decision-making authority
   - The formal action that is required to be taken to establish, modify or rescind a fund balance commitment

b. For assigned fund balance:
   - The body or official authorized to assign amounts to a specific purpose
   - The policy established by the governing body granting that authorization

c. For all classifications of fund balance:
   - Whether restricted or unrestricted amounts have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available
   - Whether committed, assigned or unassigned amounts have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used

d. For nonspendable fund balance displayed in the aggregate on the face of the balance sheet:
   - The amount that is not in spendable form
   - The amount that is restricted permanently

e. For restricted, committed and assigned fund balance displayed in the aggregate on the face of the balance sheet:
   - Specific information about the purposes for which the fund balance is restricted, committed, and assigned

120. SARS discloses encumbrances as commitments of the state by major funds and nonmajor funds in the aggregate.

121. SARS also discloses the following required information:

a. The deficit fund balance or deficit net position of individual funds when the deficit is not visible on the face of the basic financial statements

b. The amount of the primary government's net position at the end of the reporting period that are restricted by enabling legislation, and

c. The amount and reason for significant prior period adjustments.

Appendix A
A Guide for Determining Fund Balance Classification
Under GASB Statement No. 54

GOVERNMENTAL FUNDS (other than GAAP General Fund 0001)

Step 1: Does this D23 fund close to one of the Governmental GAAP Funds listed below?

If the answer is **YES**, go to Step 2 to determine the appropriate fund balance category.

If the answer is **NO**, **STOP!** GASB Statement No. 54 does not apply.

0054	1103	1106	1109	1112	2002	3001
1101	1104	1107	1110	1113	2003	7505
1102	1105	1108	1111	2001	2005	

For GAAP Fund 0001, go directly to Step 7.

NONSPENDABLE FUND BALANCE

Step 2: Is the use of a resource in this fund limited because:

a. It is not in spendable form? For example: inventories, prepaid items, and long-term receivables (other than loans and advances).

b. Your agency is legally or contractually obligated to maintain the resource intact? For example: the corpus of a permanent fund.

If the answer to either question is **YES**, classify the related fund balance as ***nonspendable*** using the appropriate transaction codes. If the answer to both questions is **NO**, go to Step 3.

> **Caution:** Classify loans receivable and advances to other funds as nonspendable fund balance in the GAAP General Fund, unless the proceeds from collection are restricted, committed, or assigned to a specific purpose. In the other GAAP funds, the related fund balance must be classified as restricted, committed, or assigned as determined in Steps 3 through 6.
>
> **Caution:** If inventories include property held for resale and the proceeds from the sale are restricted, committed or assigned to a specific purpose, classify the related fund balance as restricted, committed or assigned rather than nonspendable.
>
> **Caution:** In permanent funds, consider whether additional fund balance should be reclassified to nonspendable. For example, if a portion of the earnings on the fund must be held in perpetuity, reclassify that portion of fund balance to nonspendable.

RESTRICTED FUND BALANCE

Step 3: If the answer to any question in this section is **YES**, classify the related fund balance as ***restricted***. Attach supporting documentation to the D23 Fund Profile form and maintain a copy for audit purposes. If the answer to all of the questions in this section is **NO**, go to Step 4.

a. ***G54 Code R1*** – Is your agency's use of a resource in this fund restricted to a ***specific purpose*** imposed by federal laws, federal regulations or federal grant agreements?

RESTRICTED FUND BALANCE
Step 3 (cont'd.)

b. ***G54 Code R2*** – Is your agency's use of a resource in this fund restricted to a specific purpose imposed by the Oregon Constitution? Examples include Common School Fund resources, lottery proceeds, and motor vehicle use/fuel taxes.

c. ***G54 Code R4*** – Is your agency's use of a resource in this fund restricted by the terms of a COP agreement, bond indenture, or state law to fund specific capital project(s)?

d. ***G54 Code R4*** – Is your agency's use of a resource in this fund restricted by debt covenants for the payment of debt service?

e. ***G54 Code R5*** – Is your agency's use of a resource in this fund restricted by conditions imposed by the donor?

Caution: *Specific purpose* means a purpose that is narrower than the "purpose of state government." For example, a law may specify that a resource must be used for education purposes or for an agency's general operations. In either case, use of the resource would be considered limited to a specific purpose.

Step 4: Is the restriction on your agency's use of a resource contained in legislation that also ***authorizes*** the state to assess, levy, charge, or collect the resource from external parties? Is the restriction on the use of the resource ***legally enforceable***?

If the answer to both questions is **YES**, classify the related fund balance as restricted by ***enabling legislation (G54 Code R3)***. Attach supporting documentation to the D23 Fund Profile form and maintain a copy for audit purposes. If the answer to either question is **NO**, go to Step 5.

Caution: *Legally enforceable* means that your agency can be compelled by an external party – such as citizens, public interest groups, or the judiciary – to use the resources as specified in the legislation.

Caution: Do not confuse enabling legislation (or laws) with the Oregon Revised Statutes. The Oregon Revised Statutes represent the codification of the bills passed by the Oregon Legislature and signed into law by the Governor. In addition, some agencies maintain their own historical files and records of the laws that pertain to their operations.

Caution: If the use of a resource is restricted both by the Oregon Constitution and the Oregon Revised Statutes, document only the restriction imposed by the Constitution because the Constitution takes precedence over any related legislation. For example, lottery funds should be considered restricted by the Constitution, even though the Oregon Revised Statutes may place additional constraints on their use.

COMMITTED FUND BALANCE

Step 5: Is the law that places limitations on the use of resources in this fund ***separate*** from the law authorizing the state to assess, levy, charge, or collect this resource? If the answer is **YES**, classify the related fund balance as ***committed (G54 Code C1)*****.** Attach supporting documentation to the D23 Fund Profile form and maintain a copy for audit purposes. If no legislation has passed that legally commits the resources to a specific purpose, go to Step 6.

ASSIGNED FUND BALANCE

Step 6: ***Assigned fund balance (G54 Code A1)*** represents resources that are limited by the state's ***intent*** to use them for a specific purpose. Intent may be expressed by the governing body itself, another body (e.g., a budget committee), or a designated official.

These resources are neither restricted nor committed to a specific purpose by external parties (such as creditors, grantors, and donors), federal laws or regulations, state laws, or the Oregon Constitution. In general, assigned fund balance includes all remaining fund resources and is the residual classification in all governmental funds, except the General Fund.

GAAP General Fund 0001

Step 7: Unassigned fund balance is the residual classification in the General Fund.

a. If the appropriated fund on the D23 fund profile is 8800, classify the related fund balance as ***unassigned (G54 Code U1)***.

b. If the appropriated fund on the D23 fund profile is *not* 8800, classify the related fund balance as ***assigned (G54 Code A1).***

MORE THAN ONE FUND BALANCE CATEGORY APPLIES

Step 8: If more than one fund balance category applies to the resources accounted for in this D23 fund, select the category that comprises the majority of the resources for closing purposes. During Month 13, determine the proper allocation and reclassify to the other fund balance categories as needed using transaction codes 453 and 454.

OREGON ACCOUNTING MANUAL	Number 15.90.00.PO
Oregon Department of Administrative Services State Controller's Division — **Policy**	Effective Date July 1, 2001
Chapter **Accounting and Financial Reporting** Part **General Fund**	.1 OF .1
Section	Approval Signature on file at SCD

Authority **ORS 291.040**
ORS 291.100
ORS 293.105
ORS 293.450
ORS 293.455
ORS 293.590
ORS 314.515
ORS 314.518
NCGA Statement No. 1
GASB Statement No. 33
GASB Statement No. 34

Purpose and Scope

.101 This policy establishes how **general fund** transactions will be recorded and reported in accordance with **generally accepted accounting principles (GAAP)** in Oregon's **Comprehensive Annual Financial Report (CAFR)**.

.102 This policy applies to all agencies that have general fund **appropriations** and/or that collect and report general fund **revenues** (i.e., have D23 funds which point to GAAP fund 0001). Except for the sections related to reconciliation of Treasury fund 0401, it does not apply to other GAAP fund types even though they may have moneys on deposit in a Treasury account with a GF prefix. Moneys on deposit at Treasury in accounts with a GF prefix are defined as part of the legal general fund. The legal general fund encompasses any fund which statute defines as part of the general fund, regardless of Treasury fund or GAAP fund type.

Policy Standards

.103 General fund transactions will be accounted for using the modified accrual basis of accounting, which has a current financial resources measurement focus.

.104 All general fund **expenditures** will be recorded in **R*STARS** and shall not exceed legislatively approved appropriations in accordance with applicable statutes.

.105 All general fund revenue will be recorded in R*STARS, either at the time it is received, or at a summary level on at least a monthly basis.

.106 Agencies shall maintain general ledger accounts on R*STARS as needed to account for all transactions related to the general fund.

.107 Statewide Accounting and Reporting Services (SARS) will report the general fund in the State's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles. The general fund is a major fund for reporting purposes and is reported in a separate column within the basic financial statements.

.108 General fund transactions will be presented in the **government-wide financial statements** using the accrual basis of accounting, which has an economic resources measurement focus. Agencies are responsible for using appropriate transaction codes to allow for reporting transactions both in the governmental fund financial statements and in the government-wide financial statements.

.109 For CAFR reporting purposes, reconciliation to the government-wide financial statements is required for the balance sheet and operating statement of governmental funds, which includes the general fund.

.110 The State Treasury shall maintain the legal general fund as required by statute.

.111 SFMS Operations in the State Controller's Division shall reconcile the R*STARS cash balance of fund 0401 to the Treasury cash balance in fund 0401.

OREGON ACCOUNTING MANUAL		Number 15.90.00.PR
Oregon Department of Administrative Services State Controller's Division	**Procedure**	Effective Date July 1, 2001
Chapter	**Accounting and Financial Reporting**	.1 OF .4
Part	**General Fund**	
Section		Approval Signature on file at SCD

Authority **ORS 291.040**
ORS 291.100
ORS 293.105
ORS 293.450
ORS 293.455
ORS 293.590
ORS 314.515
ORS 314.518
NCGA Statement No. 1
GASB Statement No. 33
GASB Statement No. 34

Expenditures

.101 Agencies shall use the following appropriated funds in **R*STARS** to record general fund expenditures:

8000 - General Fund Expenditures
8010 - General Fund Capital Improvements
8020 - General Fund Capital Construction
8030 - General Fund Debt Service

Only expenditures that have been legislatively appropriated shall be recorded in the above appropriated funds. Expenditures recorded as payments are made through warrants, transfers, ACH or wire transactions. When a payment is made, it results in a decrease to Cash, general ledger account 0070, and an offset to Expenditure Control-Cash, general ledger account 3500. Entries may post to other general ledger accounts depending on the transaction code used.

.102 At fiscal year end, SARS will report expenditures recorded in the general fund by GAAP function, in accordance with **generally accepted accounting principles (GAAP)**.

Revenues

.103 Agencies must record general fund revenues in R*STARS in appropriated fund 8800. General fund revenues are defined by statute and generally include the following: personal income tax, corporate income tax, excise tax, cigarette tax, insurance premium tax, inheritance and gift taxes, licenses and fees, and interest income. Revenues may be recorded on the cash basis during the year, but should be recorded on the modified accrual basis at fiscal year end. Derived tax revenues, including income taxes, net of estimated refunds and uncollectibles, shall be recognized in the accounting period in which they are susceptible to accrual. That is, when revenues are both measurable and available. See **OAM 15.35.00**, Revenues and Receivables, for revenue recognition criteria.

.104 Most agencies collecting general fund revenues will deposit monies into a fund (D23) that corresponds to a Treasury fund having a GF prefix (the legal general fund). Agencies that collect numerous payments may elect to deposit into a **suspense account** at Treasury and allocate, at least monthly, the balance in the suspense account to the appropriate funds within the agency. The revenue information in R*STARS will be relied upon by the Office of Economic Analysis to determine how much revenue was collected during a given month; thus, it must be correctly recorded by agencies by the accounting close of each month.

.105 The General Fund earns interest on cash invested in the Oregon Short Term Fund (which includes the local government investment pool accounts, suspense accounts, and receipted funds). Allocation of interest is based on actual daily balances in the accounts. Interest income earned by the General Fund is recorded in account 9990076015 at Treasury and reported to SFMS Operations each month. The monthly interest income in agency 999 (State General Fund) is posted to R*STARS by SFMS Operations staff in fund 7601, General Fund Interest Earnings, as follows:

T-code 190 using comptroller object 0820 Excess Fund Interest – Treasury:

DR 0065 Unreconciled Deposit	xxx	
CR 3100 Revenue Control – Cash		xxx

T-code 332 will be generated during deposit reconciliation:

DR 0070 Cash in Treasury	xxx	
CR 0065 Unreconciled Deposit		xxx

.106 SARS will report revenues recorded in appropriated fund 8800 in the general fund by revenue type in accordance with generally accepted accounting principles. SARS will rely on revenues recorded in agency 999 to report interest revenue (as Investment Income) in the general fund at fiscal year end.

General Ledger Accounts

.107 Agencies that collect general fund revenues and incur general fund expenditures shall maintain general ledger accounts appropriate for recording transactions. General ledger balances of the general fund that are not connected to a specific agency shall be maintained in agency 999 in R*STARS by SFMS Operations. For example, activity related to accrued interest receivable and advances from the general fund to other funds/agencies would be recorded in agency 999.

.108 General ledger account balances in the general fund shall be reported in the CAFR in accordance with GAAP.

.109 General fund cash at year end will consist of balances in the following R*STARS general ledger accounts:

0065 Unreconciled Deposit
0070 Cash on Deposit with Treasurer
0072 Cash on Hand
0075 Cash on Deposit - Suspense Account at Treasury

.110 Prior to the close of June (month 12), agencies with summary suspense accounts shall distribute cash balances to the appropriate D23 funds so that general fund cash is accurately reported.

Backup Withholding

.111 The inflows and outflows associated with backup withholding shall be recorded in R*STARS in agency 999. If a **vendor** is subject to backup withholding, it should be flagged. When a quarterly payment is made, the appropriate back-up withholding amount (currently 31 percent, to reduce to 30.5 percent on August 6, 2001) shall be diverted to agency 999 and remitted to the Internal Revenue Service (IRS). SFMS Operations staff shall record these transactions in agency 999, in D23 fund 9999, Backup Withholding.

Two-year Warrant Expirations

.112 Two-year warrant expirations that are general fund shall be processed through agency 999 in R*STARS using D23 fund 7704, which is tied to appropriated fund 8800, General Fund Revenue. These transactions are reported to the Division of State Lands by SFMS Operations and recorded as a deposit liability because the moneys associated with general fund two-year expired warrants remain in the general fund. Non-general fund warrants are expired through R*STARS, but are processed against the originating agency. The moneys associated with non-general fund expired warrants are transferred to the Division of State Lands by SFMS Operations.

Fiscal Year and End of Biennium Closing

.113 At the end of each fiscal year, nominal accounts (revenues, expenditures, transfers, and GAAP offsets) will be closed to appropriate equity accounts (depending on GAAP fund type) through the DAFM351 program in R*STARS. This program uses transaction codes 350 and 351 to close the general fund nominal accounts within each D23 fund to general ledger account 3020 Unreserved, Undesignated Fund Balance.

.114 The encumbrance lapse programs will not be run in R*STARS. The summary fiscal year end closing programs have not yet been developed in R*STARS. D23 funds in the general fund will continue to carry increasing credit balances of cash and debit fund balances (or debit cash and credit fund balance in the case of funds that collect revenue) until such time as the closing processes are implemented. Until closing processes are in place, the SFMS system will continue to retain all general fund D23 funds, even those belonging to defunct agencies, in order for SARS to have a complete picture of cash and fund balance for reporting purposes.

Financial Statement Reporting

.115 The GAAP general fund (in R*STARS) includes any D23 fund that is GAAP type 01 (general fund) and ties to Treasury fund 0401. The general fund will be reported as a major fund in the governmental funds financial statements, using the modified accrual basis of accounting. General fund transactions will be reported in the government-wide financial statements using the accrual basis of accounting. Agencies are responsible for using appropriate transaction codes in R*STARS to report transactions on both basis of accounting. In the government-wide reporting fund, agencies should record capital assets purchased with general fund resources as well as other assets and liabilities of a long-term nature (those not appropriately reported in the general fund).

.116 For financial reporting purposes, SARS will provide a reconciliation of the governmental funds balance sheet and operating statement to the government-wide financial statements based on transactions recorded in R*STARS.

Revenue Forecasts and Kicker Liability

.117 The Office of Economic Analysis forecasts general fund revenue on a quarterly basis, as part of the Oregon Economic and Revenue Forecast, which is used mainly for budgeting. Additionally, the Close of Session forecast is used as the basis for the kicker calculation and estimates of whether the kicker will "kick" are updated each quarter based on the latest forecast. The forecast includes all general fund revenue sources, although personal and corporate income taxes provide over 90 percent of the State's general fund revenue. Historical data for the forecast is obtained from R*STARS reports or the SCD Accounting Data Mart.

.118 If actual revenues exceed estimated revenues such that there is a kicker to be paid, the liability will be recorded in R*STARS by the Department of Revenue. The kicker will be treated as a reduction of revenue, with a debit to tax revenue (personal or corporate, as applicable) and a credit to accounts payable.

Reconciliation of Treasury Fund 0401

.119 Monthly, SFMS Operations shall prepare a reconciliation of the 0401 Treasury Fund cash balance to the 0401 portion of the 0070 general ledger cash balance in R*STARS. Outstanding reconciling items shall be researched and cleared on a statewide basis. Thus, agencies do not need to reconcile cash funds that are part of the 0401 Treasury Fund. However, agencies will need to work with SFMS Operations to clear general fund reconciling items in a timely manner.

OREGON ACCOUNTING MANUAL		Number 15.95.00.PO
Oregon Department of Administrative Services State Controller's Division	**Policy**	Effective Date July 1, 2001
Chapter	**Accounting and Financial Reporting**	.1 OF .1
Part	**Year End Closing and Statewide Reporting**	
Section		Approval Signature on file at SCD

Authority **ORS 291.040**
ORS 293.600
GASB Statement No. 34

Purpose and Scope

.101 This policy establishes standards and requirements for fiscal year end closing and financial reporting for all state agencies that are part of the State's reporting entity. Statewide Accounting and Reporting Services (SARS) is responsible for overseeing the year end closing process on a statewide basis. SARS prepares a statewide financial report for the State in accordance with **generally accepted accounting principles (GAAP)**. This statewide financial report is published in the form of a **Comprehensive Annual Financial Report (CAFR)**. Agencies need to provide requested information for preparation of the CAFR, in the format and on the dates specified by SARS, to enable SARS to comply with the legal requirement for issuance of the CAFR within 180 days of the close of the fiscal year. The Secretary of State Audits Division is responsible for auditing the State's financial statements.

Policy Standards

.102 Management is responsible to ensure fiscal year end closing procedures will result in reporting agency financial information in conformity with generally accepted accounting principles. This includes adherence to accounting and reporting policies and procedures contained in the Oregon Accounting Manual. Adjustments made during the year end closing process will be supported by documentation and retained in accordance with the agency's records retention schedule.

.103 CAFR disclosure forms and other requested information are critical to the preparation of the notes to the State's financial statements. Each agency should complete the applicable disclosure forms and submit them to SARS by the scheduled due date. Agency management is responsible for the accuracy and completeness of their agency accounting records and the information provided for disclosure purposes.

.104 Agencies that do not maintain their accounting records on the **Statewide Financial Management System** shall provide copies of their financial statements, or equivalent data sufficient to prepare financial statements, to SARS for the statewide compilation process.

.105 Each agency will designate one person to be primarily responsible for the agency's fiscal year end closing and financial reporting. SARS maintains a statewide list of these CAFR contacts on the SCD website to facilitate communication between agencies.

.106 SARS will designate an analyst to provide assistance to the agency CAFR accountant with accounting and reporting issues.

# OREGON ACCOUNTING MANUAL		Number 15.95.00.PR
Oregon Department of Administrative Services State Controller's Division	**Procedure**	Effective Date July 1, 2001
Chapter	**Accounting and Financial Reporting**	.1 OF .3
Part	**Year End Closing and Statewide Reporting**	
Section		Approval Signature on file at SCD

Authority **ORS 291.040**
ORS 293.600
GASB Statement No. 34

Statewide Financial Reporting

.101 The fiscal year end closing process culminates with the issuance of the State's **Comprehensive Annual Financial Report (CAFR)**. All agencies identified by **Statewide Accounting and Reporting Services (SARS)** as part of the State's reporting entity are included in the CAFR. This includes agencies who do not maintain their accounting records on **R*STARS**. SARS publishes the CAFR annually for the fiscal year ended June 30.

.102 Data from R*STARS, together with data from agencies not on R*STARS, is used to compile the statewide financial statements. Account balances as of the close of Month 13, modified by any required audit adjustments, are reported in the CAFR. During the compilation of the financial statements, SARS ensures that the State's financial position and results of operations are fairly presented in accordance with **generally accepted accounting principles (GAAP)**. SARS will combine the data in **governmental funds**, **internal service funds**, and the **government-wide reporting fund** in order to prepare the governmental activities column of the **government-wide financial statements**. Data in **enterprise funds** will be used to prepare the business-type activities column of the government-wide financial statements.

.103 Information that may be required for disclosure in the notes to the financial statements is obtained through year end disclosure forms. Agencies need to complete applicable disclosure forms and submit them to SARS within established timelines. A Certificate of Accuracy and Completeness, signed by the agency's chief fiscal officer, should accompany the disclosure forms. SARS relies upon agency disclosure information to compile required note disclosures.

.104 The CAFR will include an audit opinion as to whether the State's financial position and results of operations are fairly presented in accordance with GAAP. As the constitutional auditor of public accounts, the Secretary of State Audits Division conducts the statewide audit. The statewide audit is required to be a Single Audit in accordance with the Single Audit Act of 1984, as amended, because the State receives federal funds. The Audits Division selects certain accounts and federal programs to audit at specific agencies as part of the Single Audit.

.105 In order to comply with provisions of the Single Audit Act, SARS prepares a federal reporting package as required by **OMB Circular A-133** (refer to **OAM 30.10.00 PO** for more information). The reporting package is required to include a **Schedule of Expenditures of Federal Awards (SEFA)**. Each agency should complete the year end disclosure form on federal revenues and expenditures to determine if SEFA reporting is applicable to their agency. Agencies that receive federal funds, directly or indirectly, are required to provide information for the statewide SEFA. If applicable, agencies will submit pertinent information to SARS by the due date for inclusion in the SEFA.

Year End Closing Process

.106 The quality of the CAFR depends on the accuracy and completeness of year end closing activities. Year end financial statement adjustments and accruals are recorded in R*STARS in month 13, the last period of each fiscal year. Normally, cash transactions that occur during the year are posted prior to the close of month 12 (June). Agencies should maintain up-to-date accounting records during the year and use month 13 for adjustments needed for reporting in conformance with GAAP at year end. Agencies are responsible for selecting appropriate transaction codes to record transactions in R*STARS. The agency's assigned SARS and SFMS analysts are available to provide guidance when needed. Supporting documentation should be attached to month 13 transactions in the same manner as other accounting entries.

.107 Month 13 transactions must be recorded with an effective date of 06/31/YY (YY is the fiscal year), regardless of the document date. When recording entries in the second year of a biennium, care should be taken to ensure the transaction is posted to the proper appropriation year. After the system date changes (July 1), the appropriation year (AY) defaults to the *new* AY, not the AY that should be used in month 13.

.108 For most accruals recorded in month 13, reversing entries are generated automatically in R*STARS in July of the new fiscal year. This helps to ensure revenues and expenditures are not duplicated. When the actual payment is made or the income is received, it will be offset by the reversal. SARS recommends posting transaction codes that auto-reverse in month 13, rather than month 12, since it is cleaner for the audit process if all year end accruals are recorded in month 13.

.109 To facilitate year end closing, agencies are encouraged to use accounting estimates if actual accrual amounts are not available in a timely manner. Using estimates is an acceptable accounting practice, provided the basis on which the estimates are made is fundamentally sound, sufficiently documented, can be audited, and conforms with generally accepted accounting principles.

.110 During the year end closing process, agencies are responsible for ensuring transactions between agencies balance, as appropriate. This will ensure interfund transactions, as disclosed in the notes to the financial statements, balance on a statewide basis. For example, this would include transfers, loans between agencies, or year end accruals of interagency transactions. To facilitate communication between agencies, SARS maintains a statewide list of agency contacts. If the agency's CAFR contact changes, SARS should be notified to update the list.

.111 Some D23 funds are reported as GAAP fund 6406, Clearing Agency Fund. This means the fund is being used as a clearing account to distribute financial resources to other funds within the State (either other funds within the agency or funds in other state agencies). The clearing account balance should not be reported in agency funds. Rather, it should be reported as assets in the appropriate funds. Thus, agencies with D23 funds being reported as GAAP fund 6406 are required to distribute cash from the clearing account by the close of June. The cash balance in GAAP fund 6406 should be zero on a statewide basis by the close of June.

.112 SARS will provide a schedule of year end closing activities to agencies which will reflect the time frame necessary to prepare audited statewide financial statements by the statutorily required due date. Other guidance will be provided to agencies through the Agency Guide to Year Closing, maintained by SARS.

Post-Closing Adjustments

.113 On occasion, it may be necessary to post adjustments to the statewide financial statements that were not discovered until after the close of month 13. These adjustments may be identified by the agency, by SARS, or proposed as audit adjustments by the Audits Division. Agencies should coordinate post-closing adjustments with SARS and the Audits Division, if applicable. Post-closing adjustments must be significant in amount. When adjustments are made to the CAFR balances, agencies should follow-up by recording a post-closing entry in the subsequent fiscal year. These are not prior period adjustments. They are adjustments to bring R*STARS balances in agreement with balances reported in the CAFR. Agencies should strive to post all necessary year end adjustments during month 13 to alleviate the need for post-closing adjustments.

Subsequent Open Accounting Months

.114 The time necessary to complete the year end closing will require subsequent fiscal periods (e.g., July, August, September) to remain open on a statewide basis until year end accounting adjustments are recorded and the ending fiscal year is closed. R*STARS agencies may close completed fiscal periods on an agency basis, while the statewide closing of a fiscal period may occur at a later date.

Requirements for Agency Financial Statements

.115 Agencies are not required to submit annual financial statements to SARS unless specifically required by statute or by the federal government, as a condition to receive funds from an entity external to the State, or by the direction of SARS.

.116 For those agencies that issue annual audited financial statements, the information in the agency issued financial statements must agree with CAFR reported balances, if that agency's information is presented discretely in the CAFR. In this case, agencies are required to submit one copy of their financial statements to SARS for inclusion in and agreement with the CAFR.

.117 Agencies that do not maintain their accounting records on R*STARS will provide copies of their financial statements, or equivalent data sufficient to prepare financial statements, to SARS for the statewide compilation process.

DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Reporting	**Number:** 15.97.00
DIVISION:	Chief Financial Office	**Effective date**: July 1, 2012
Chapter:	Accounting and Financial Reporting	
Part:	Agency Financial Reporting	
Section:		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file

PURPOSE: This policy provides guidance on financial reporting for agencies who prepare annual financial statements, either audited or unaudited. Agencies that choose to prepare a full **Comprehensive Annual Financial Report (CAFR)** for their agency should seek guidance, as needed, from Statewide Accounting and Reporting Services (SARS) in addition to adhering to this policy

AUTHORITY:
ORS 293.590
ORS 291.015
ORS 291.040
ORS 293.590
ORS 293.600

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

POLICY:

101. Agencies are not required to submit annual financial statements to SARS unless specifically required by statute, by the federal government, or by SARS.

102. Agencies that issue audited financial statements will work with SARS to ensure that the total Net Position reported in agency issued financial statements agrees with the total Net Position reported in the State's CAFR, if that agency's information is presented discretely (in a separate column) in the CAFR Basic Financial Statements. As requested by SARS, agencies should send a copy of annual audited financial statements (both draft and final) to SARS for coordination of CAFR reported amounts. Agencies are not required to include a Management's Discussion and Analysis (MD&A) with agency audited financial statements; however, they may choose to include an MD&A. The only time an agency is required to include an MD&A with agency audited financial statements is when an agency publishes a full CAFR (rather than just financial statements). For guidance on the required elements of an MD&A, contact your SARS analyst.

103. Some agencies may choose to issue agency financial statements, even though they are not required to do so. If an agency chooses to issue (unaudited) agency financial statements, the financial statements and accompanying note disclosures must be in conformance with **generally accepted accounting principles (GAAP)**. Agency management is responsible to

ensure the presentation of the agency's financial position and results of operations are in accordance with current GAAP.

104. Agencies are not required, nor are they permitted, to prepare or issue **government-wide financial statements** (either audited or unaudited). Government-wide financial statements, which include a Statement of Net Position and a Statement of Activities, present the State of Oregon government as a whole and are therefore not applicable to an individual agency.

105. The fiscal year end for state agencies that are part of the State's primary government is June 30.

PROCEDURE:

Reporting Account Balances

106. Account balances reported in agency financial statements must be derived from and agree to balances in the **Relational Statewide Accounting & Reporting System (R*STARS)**, or the agency's accounting system for those agencies that do not maintain their accounting records on R*STARS. Agencies that interface data from their own subsystem(s) into R*STARS are considered agencies that maintain their accounting records on R*STARS.

107. For agencies on R*STARS, month 13 should be used to record entries necessary to present the agencies' data in conformance with If agencies discover errors or omissions after month 13 closes, agencies should notify **Statewide Accounting and Reporting Services (SARS)**.

108. SARS recommends the use of GAAP-level reporting profiles in R*STARS to assist with preparation of agency financial statements. For general ledger accounts, this is the D14 profile. For object accounts, it is the D08 profile. Use the GAAP fund profile (D24) to report columns within the financial statements. SARS encourages use of the Accounting DataMart to facilitate the efficient gathering of electronic data.

GAAP Fund Financial Statements

109. Agency financial statements should report financial activity for governmental, proprietary, and fiduciary funds separately using the appropriate basis of accounting (i.e., modified accrual or full accrual) and measurement focus (i.e., current financial resources or economic resources). Use of the appropriate transaction codes and account profiles in R*STARS will facilitate this separate reporting. When preparing financial statements, agencies should refer to other parts within Chapter 15 of the OAM for specific reporting and disclosure requirements as well as recognition criteria.

110. Financial statements for **governmental funds** include:

a. Balance Sheet
b. Statement of Revenues, Expenditures and Changes in Fund Balances

111. Financial statements for **proprietary funds** include:

a. Statement of Net Position
b. Statement of Revenues, Expenses and Changes in Fund Net Position
c. Statement of Cash Flows

112. Financial statements for **fiduciary funds** include:

a. Statement of Fiduciary Net Position
b. Statement of Changes in Fiduciary Net Position

113. The Statement of Net Position for proprietary funds should present assets, deferred outflows, liabilities, and deferred inflows using the classified format; that is, report the current and noncurrent portion of assets and liabilities, and the deferred accounts, separately. General ledger account profiles exist in R*STARS to accommodate this distinct reporting. The statement must also present **restricted assets** as such on the face of the statement.

114. The Statement of Revenues, Expenses and Changes in Fund Net Position must distinguish between **operating revenues** and **nonoperating revenues** as well as **operating expenses** and **nonoperating expenses** (see **OAM 15.35.00** and **OAM 15.40.00 PR** for guidance on the distinction between operating and nonoperating).

115. The Statement of Cash Flows for proprietary funds must present cash flows using the direct (rather than the indirect) method.

Illustrative GAAP Fund Financial Statements

116. Illustrative fund financial statements for governmental funds and for proprietary funds are included in this procedure (see pages 6 through 10). These financial statements demonstrate the format of required GAAP statements to assist agencies that prepare financial statements. The sample statements are for illustration only and do not contain all line item titles that may be applicable to various agencies. The illustrative Statement of Cash Flows does not include a section for Cash Flows from Capital and Related Financing Activities. Financial statements for fiduciary funds are not illustrated. For additional guidance, contact your agency's SARS analyst.

GAAP Note Disclosures

117. Agencies must consider which of the topics listed below are applicable to their financial statements for the fiscal year they are reporting and include note disclosures as appropriate (the SARS analyst for each agency is available to provide specific guidance on content requirements). Since the Governmental Accounting Standards Board periodically changes note disclosure requirements, SARS recommends that agencies that prepare GAAP financial statements contact their SARS analyst to ensure they consider all applicable disclosures. The following outline is a recommended organization for note disclosures; however, agencies may organize the information differently, provided the content is complete:

1. Summary of Significant Accounting Policies
   A. Reporting Entity
   B. Fund Financial Statements
   C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
   D. Deposits and Investments
   E. Receivables and Payables
   F. Intrafund Transactions
   G. Inventories
   H. Prepaid Items
   I. Restricted Assets
   J. Foreclosed and Deeded Properties
   K. Receivership Assets
   L. Capital Assets
   M. Compensated Absences

    N. Long-term Obligations
    O. Fund Equity
    P. Changes in Accounting Principle
2. Deposits and Investments
    A. Deposits
    B. Investments
    C. Securities Lending
    D. Restricted Assets
3. Derivatives
4. Receivables and Payables
    A. Receivables
    B. Payables
5. Joint Ventures
6. Capital Assets (including construction commitments and collections not capitalized)
7. Leases
    A. Operating Leases
    B. Capital Leases
    C. Lease Receivables
8. Donor-Restricted Endowments
9. Short and Long-term Debt
    A. TANS, Lines of Credit, etc.
    B. General Obligation Bonds
    C. Revenue Bonds
    D. Certificates of Participation
    E. General Appropriation Bonds
    F. Changes in Long-term Debt
    G. Demand Bonds
    H. No-Commitment Debt
    I. Debt Refundings
    J. Defeased Debt
10. Other Long-term Liabilities
    A. Changes in Long-term Liabilities
    B. Arbitrage Rebate Liability
11. Pollution Remediation Obligation
12. Pledged Revenues
13. Interfund Transactions
14. Segment Information
15. Employee Retirement Plans
16. Other Postemployment Benefits
17. Deferred Compensation Plans
18. Termination Benefits
19. Risk Financing
20. Discounts and Allowances in Proprietary Funds
21. Fund Equity
22. Commitments
23. Contingencies
24. Subsequent Events
    A. Long-term Debt Issues
    B. Bond Calls
    C. Refundings
    D. Debt Guarantees
25. Extraordinary and Special Items

Budgetary Financial Reporting

118. At their discretion, agencies may prepare agency budgetary schedules (see paragraph 120 for proper title and format). Budgetary schedules report financial activity separately for general funds, federal funds, other funds, and lottery funds using the budgetary basis of accounting (i.e., cash plus encumbrances). Use of the appropriate transaction codes and account profiles in R*STARS will facilitate this separate reporting. When preparing budgetary schedules, agencies should refer to Chapter 20 of the OAM for specific budgetary reporting requirements as well as recognition criteria.

119. SARS recommends the use of budgetary reporting profiles in R*STARS to assist with preparation of agency budgetary schedules. Use the appropriated fund profile (D22) to report activity within the schedules; do not include appropriated funds that are non-limited or non-budgeted in budgetary reporting schedules. As an alternative to reporting by appropriated fund, combine similar appropriated fund data by funding source (i.e., general, federal, other, or lottery funds). Use of the Accounting DataMart may facilitate the efficient gathering of electronic data.

120. The appropriate title for a budget to actual comparison is “Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budgetary (Non-GAAP) Basis – All Budgeted Appropriated Funds”. This schedule should present comparisons of the legislatively **approved budget** with actual data on the budgetary basis. The schedule reports budgeted amounts separately for the original budget and the final budget. The original budget is the legally **adopted budget** that resulted from the regular legislative session. Budgeted revenues should represent original estimates, while budgeted expenditures should represent original appropriations. The final budget is the legally approved budget, which is the adopted budget adjusted for any e-board actions or other legislative changes. The schedule should report estimated revenues by revenue source, while it should report budgeted expenditures by category (i.e., personal services, services and supplies, special payments, etc.). Actual revenues should represent cash revenues, while actual expenditures should include both cash expenditures and encumbrances.

Reconciliation Between Budgetary and GAAP Reporting

121. When agencies present both GAAP financial statements and non-GAAP budgetary schedules, agencies should also present a reconciliation between the two reports. The notes to the required supplementary information should include an explanation of the differences between revenues and expenditures, on the budgetary basis and on the GAAP basis. This is not applicable to agencies that do not prepare budgetary schedules (as described in 120).

Budgetary Disclosures

122. If a Management’s Discussion and Analysis accompanies the agency’s financial statements, it must include an analysis of significant variations between the original and final budget amounts, as well as between final budget and actual amounts for the general fund.

123. Since a budgetary schedule (as described in 120) will not demonstrate compliance at the legal level of budgetary control (that is, at the appropriation level), agencies should disclose how to obtain a copy of the State’s Budgetary Statement of Legal Compliance that is published annually. This is not applicable to agencies that do not prepare budgetary schedules (as described in 120).

Illustrative Fund Financial Statement for Governmental Funds

Oregon Department of XXXXXXX
Balance Sheet
Governmental Funds
June 30, 20XX

	General	Environmental Management	General Obligation Bond	Total Governmental Funds
Assets				
Cash and Cash Equivalents	$ -	$ 90,653,924	$ 3,324,442	$ 93,978,366
Investments	-	-	1,203,000	1,203,000
Accounts and Interest Receivable (net)	215,532	7,447,982	16,310	7,679,824
Due from Other Funds	340,686	1,199,841	-	1,540,527
Due from Other Governments	-	445,301	-	445,301
Inventories	269,088	1,098,862	-	1,367,950
Prepaid Items	-	81,620	-	81,620
Net Contracts and Other Receivables	-	910,861	-	910,861
Loans Receivable	-	248,360,516	-	248,360,516
Total Assets	$ 825,306	$ 350,198,907	$ 4,543,752	$ 355,567,965
Liabilities and Fund Balances				
Liabilities:				
Accounts and Interest Payable	$ 296,259	$ 4,144,422	$ 26	$ 4,440,707
Due to Other Funds	259,203	1,221,446	-	1,480,649
Due to Other Governments	-	159,542	-	159,542
Matured Bonds Payable	-	-	112,378	112,378
Custodial Liabilities	-	622,050	-	622,050
Deferred Revenue	-	910,861	-	910,861
Total Liabilities	555,462	7,058,321	112,404	7,726,187
Fund Balances:				
Nonspendable-Inventory	269,088	1,098,862	-	1,367,950
Nonspendable-Prepaid Items	-	81,620	-	81,620
Restricted for Natural Resource Programs	-	341,554,332	-	341,554,332
Restricted for Debt Service	-	-	4,431,348	4,431,348
Committed	-	400,535	-	400,535
Assigned	-	5,237	-	5,237
Unassigned	756	-	-	756
Total Fund Balances	269,844	343,140,586	4,431,348	347,841,778
Total Liabilities and Fund Balances	$ 825,306	$ 350,198,907	$ 4,543,752	$ 355,567,965

The notes to the financial statements are an integral part of this statement.

This sample financial statement is for illustrative purposes only. Fund and line item titles will vary by agency.

Illustrative Fund Financial Statement for Governmental Funds

Oregon Department of XXXXXXX
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 20XX

	General	Environmental Management	General Obligation Bond	Total Governmental Funds
Revenues:				
Licenses and Fees	$ -	$ 30,702,879	$ -	$ 30,702,879
Federal	-	32,107,318	-	32,107,318
Charges for Services	-	5,130,968	-	5,130,968
Fines and Forfeitures	1,031,355	107,824	-	1,139,179
Investment Income	-	13,593,988	168,404	13,762,392
Total Revenues	1,031,355	81,642,977	168,404	82,842,736
Expenditures:				
Personal Services	10,433,620	39,229,930	-	49,663,550
Services and Supplies	3,073,096	20,828,502	-	23,901,598
Special Payments	70,554	2,479,137	-	2,549,691
Capital Outlay	248,337	1,164,629	-	1,412,966
Debt Service:				
Principal – Bonds	4,390,000	-	1,865,000	6,255,000
Interest – Bonds	3,051,295	-	147,243	3,198,538
Other Debt Service	-	-	72,066	72,066
Total Expenditures	21,266,902	63,702,198	2,084,309	87,053,409
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,235,547)	17,940,779	(1,915,905)	(4,210,673)
Other Financing Sources (Uses):				
Transfers from Other Funds	21,266,902	19,914,549	-	41,181,451
Transfers to Other Funds	(1,031,355)	(16,282,747)	(115,641)	(17,429,743)
Total Other Financing Sources (Uses)	20,235,547	3,631,802	(115,641)	23,751,708
Net Change in Fund Balances	-	21,572,581	(2,031,546)	19,541,035
Fund Balances – Beginning	315,764	321,584,887	6,462,894	328,363,545
Change in Inventories	(45,920)	(16,882)	-	(62,802)
Fund Balances – Ending	$ 269,844	$ 343,140,586	$ 4,431,348	$ 347,841,778

The notes to the financial statements are an integral part of this statement.

This sample financial statement is for illustrative purposes only. Fund and line item titles will vary by agency.

Illustrative Fund Financial Statement for Proprietary Funds

Oregon Department of XXXXXXX
Statement of Net Position
Enterprise Funds
June 30, 20XX

	Loan Fund A	Loan Fund B	Total
Assets and Deferred Outflows			
Current Assets:			
Cash and Cash Equivalents	$ 859,768	$ 3,678,076	$ 4,537,844
Cash and Cash Equivalents – Restricted	32,458,520	89,218	32,547,738
Investments	460,229	-	460,229
Accounts and Interest Receivable (net)	828,199	26,093	854,292
Total Current Assets	34,606,716	3,793,387	38,400,103
Noncurrent Assets:			
Cash and Cash Equivalents – Restricted	41,638,244	-	41,638,244
Investments-Restricted	221,595	92,723	314,318
Deferred Charges	455,184	-	455,184
Loans Receivable	129,720,494	906,923	130,627,417
Total Noncurrent Assets	172,035,517	999,646	173,035,163
Deferred Outflows	25,409	-	25,409
Total Assets and Deferred Outflows	$ 206,667,642	$ 4,793,033	$ 211,460,675
Liabilities and Deferred Inflows			
Current Liabilities:			
Accounts and Interest Payable	$ 4,350,883	$ 32,010	$ 4,382,893
Matured Bonds Payable	106,275	89,218	195,493
Bonds Payable	34,655,000	386,000	35,041,000
Deferred Revenue	3,051	-	3,051
Compensated Absences Payable	48,461	-	48,461
Total Current Liabilities	39,163,670	507,228	39,670,898
Noncurrent Liabilities:			
Bonds Payable	148,179,376	2,047,517	150,226,893
Arbitrage Rebate Payable	219,451	-	219,451
Custodial Liabilities	3,425,070	-	3,425,070
Compensated Absences	253		253
Total Noncurrent Liabilities	151,824,150	2,047,517	153,871,667
Deferred Inflows	-	147	147
Total Liabilities and Deferred Inflows	190,987,820	2,554,892	193,542,712
Net Position:			
Restricted for Debt Service	1,209,526	-	1,209,526
Unrestricted	14,470,296	2,238,141	16,708,437
Total Net Position	$ 15,679,822	$ 2,238,141	$17,917,963

The notes to the financial statements are an integral part of this statement.

This sample financial statement is for illustrative purposes only. Fund and line item titles will vary by agency.

Illustrative Fund Financial Statement for Proprietary Funds

Oregon Department of XXXXXXX
Statement of Revenues, Expenses and Changes in Fund Net Position
Enterprise Funds
For the Year Ended June 30, 20XX

	Loan Fund A	Loan Fund B	Total
Operating Revenues:			
Licenses and Fees	$ 277,441	$ 428	$ 277,869
Charges for Services	262,347	1,908	264,255
Fines and Forfeitures	344,488	-	344,488
Loan Interest Income	9,320,265	97,466	9,417,731
Other	12,514	-	12,514
Total Operating Revenues	10,217,055	99,802	10,316,857
Operating Expenses:			
Salaries and Wages	730,223	49,746	779,969
Services and Supplies	495,906	28,565	524,471
Bond and COP Interest	8,343,037	180,354	8,523,391
Other Debt Service	8,309	-	8,309
Bad Debt Expense	177,601	-	177,601
Total Operating Expenses	9,755,076	258,665	10,013,741
Operating Income (Loss)	461,979	(158,863)	303,116
Nonoperating Revenues (Expenses)			
Investment Income (Loss)	1,378,919	77,200	1,456,119
Other Nonoperating Items	(79)	(34)	(113)
Total Nonoperating Revenues (Expenses)	1,378,840	77,166	1,456,006
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	1,840,819	(81,697)	1,759,122
Transfers from Other Funds	-	550,000	550,000
Change in Net Assets	1,840,819	468,303	2,309,122
Net Assets – Beginning	13,839,003	1,769,838	15,608,841
Net Assets – Ending	$ 15,679,822	$ 2,238,141	$ 17,917,963

The notes to the financial statements are an integral part of this statement.

This sample financial statement is for illustrative purposes only. Fund and line item titles will vary by agency.

Illustrative Fund Financial Statement for Proprietary Funds

Oregon Department of XXXXXXX
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 20XX

	Loan Fund A	Loan Fund B	Total
Cash Flows from Operating Activities:			
Receipts from Customers	$ 970,532	$ 3,109	$ 973,641
Loan Principal Repayments	26,215,654	116,859	26,332,513
Loan Interest Received	9,157,493	1,565	9,159,058
Loans Made	(15,009,784)	-	(15,009,784)
Payments to Employees for Services	(730,738)	-	(730,738)
Payments to Suppliers	(418,467)	-	(418,467)
Payments to Other Funds for Services	(85,254)	-	(85,254)
Other Receipts (Payments)	(72,282)	(82,345)	(154,627)
Net Cash Provided (Used) in Operating Activities	20,027,154	39,188	20,066,342
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bonds/COP Sales	27,917,977	-	27,917,977
Principal Payments on Bonds/COPS	(14,005,300)	(365,077)	(14,370,377)
Interest Payments on Bonds/COPS	(8,749,948)	(176,831)	(8,926,779)
Bond/COP Issuance Costs	(94,450)	-	(94,450)
Transfers from Other Funds	-	550,000	550,000
Net Cash Provided (Used) in Noncapital Financing Activities	5,068,279	8,092	5,076,371
Cash Flows from Investing Activities:			
Proceeds from Sales and Maturities of Investments	342,793	-	342,793
Interest on Investments and Cash Balances	1,305,783	190,585	1,496,368
Net Cash Provided (Used) in Investing Activities	1,648,576	190,585	1,839,161
Net Increase (Decrease) in Cash and Cash Equivalents	26,744,009	237,865	26,981,874
Cash and Cash Equivalents – Beginning	48,212,523	3,529,429	51,741,952
Cash and Cash Equivalents – Ending	$ 74,956,532	$ 3,767,294	$ 78,723,826
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	$ 461,979	$ (158,863)	$ 303,116
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Amortization of Bond/COP Premium and Discount	328,226	-	328,226
Bad Debt Expense	177,601	-	177,601
Interest Payments Reported as Operating Expense	8,749,948	154,329	8,904,277
Bond/COP Issuance Costs Reported as Operating Expense	8,158	-	8,158
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	97,384	1,773	99,157
Loans Receivable	10,030,584	76,859	10,107,443
Accounts and Interest Payable	257,460	(7,996)	249,464
Custodial Liabilities	(83,410)	(20,756)	(104,166)
Compensated Absences Payable	(776)	(6,158)	(6,934)
Total Adjustments	19,565,175	198,051	19,763,226
Net Cash Provided (Used) by Operating Activities	$ 20,027,154	$ 39,188	$ 20,066,342

The notes to the financial statements are an integral part of this statement.

This sample financial statement is for illustrative purposes only. Fund and line item titles will vary by agency.