

# STATE OF MAINE

## GUIDANCE PACKAGE FOR COMPONENT UNITS



*FOR AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010*



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## REPORTING REQUIREMENTS

The Office of the State Controller will prepare a Comprehensive Annual Financial Report (CAFR) for fiscal year 2010 in accordance with 5 M.R.S.A. § 1547. This report will include the following entities as component units based on the Governmental Accounting Standards Board Statement #14, as amended by Governmental Accounting Standards Board Statement #39:

Child Development Services System	Maine Municipal Bond Bank
ConnectME Authority	Maine Port Authority
Finance Authority of Maine	Maine Rural Development Authority
Jobs for Maine's Graduates, Inc.	Maine School of Science & Mathematics
Loring Development Authority	Maine State Housing Authority
Maine Community College System	Maine Public Employees Retirement System
Maine Educational Center for the Deaf and Hard of Hearing	Maine Technology Institute
Maine Educational Loan Authority	Midcoast Regional Development Authority
Maine Governmental Facilities Authority	Northern New England Passenger Rail Authority
Maine Health and Higher Educational Facilities Authority	Small Enterprise Growth Fund
Maine Maritime Academy	University of Maine System

We are requesting that you send your GASB 34 compliant audited financial statements and notes to us by **October 15, 2010**, in accordance with 5 M.R.S.A. § 1547. In the event that the audited financial report has not been formally presented to the entity's Board of Directors, we will accept draft financial statements and notes as an interim measure to facilitate incorporating that information into our CAFR. Additionally, we would appreciate those component units with a calendar year end sending the audited financial statements to us as soon as they are available.

### Draft Financial Statements Transmittal Letter

Because some Component Units' financial reports will not have been approved by their Board of Trustees by the October 15<sup>th</sup> deadline, we request that you submit a copy of the draft financials to us. The draft must be represented to the Office of the State Controller as ready for acceptance by the Board of Trustees. To facilitate this, we are requesting that you sign a Draft Financial Statements Transmittal Letter. A copy of this letter is attached.

### GASB 34 Statement of Activities

The State must present a Statement of Activities for component units, in accordance with GASB 34. We therefore require your audited financial statements to include revenue and expense information in this format. This is necessary even if your financial statements are in compliance with GASB 34 without it. It can be presented as part of the financial statements, or as a supplemental schedule, but **must** be included by your auditors as part of their opinion.

GASB 34 requires segregation of revenue into the following categories: *Charges for Services*, *Operating Grants/Contributions*, *Capital Grants/Contributions*, and *General Revenues*. General revenues should be further classified as *Unrestricted interest and investment earnings*, *Non-program specific grants, contributions and appropriations*, *Gain/loss on assets held for sale*, *Extraordinary items*, or *Miscellaneous income*. Please see the attached Excel file for our suggested presentation.



## NOTES TO THE FINANCIAL STATEMENTS

*To simplify reporting, we are including an Excel file containing forms to be completed for the disclosure information. Please use these standardized forms to submit the information requested.*

The State must include supporting schedules as part of the component unit presentation. Consequently, we are requesting additional detail for the footnote disclosures. We may also require assistance to reconcile activity between the State and the component unit. Timely submission of these schedules is critical since a series of material adjustments to the State's financial statements and note disclosures will be necessary. Please include the following schedules along with your audited financial statements and note disclosures.

### **Restatement of Fund Balances/Net Assets**

If June 30, 2009 fund balance/net assets have been restated (or December 31, 2008 for calendar year entities), please include a detailed schedule reconciling to the June 30, 2009 (or December 31, 2008) fund balance/net assets as previously reported.

### **Amounts Receivable**

If the Statement of Net Assets presents amounts receivable net of allowances for uncollectible, please provide a detailed schedule that disaggregates each balance. The schedule should report the gross receivables balances and the gross allowances for uncollectible accounts, separately for each of the following categories: *Due From Other Governments, Due From Primary Government, Loans, Notes, Other* and any other categories you use to report material receivable balances.

### **Capital Assets**

If the Statement of Net Assets presents capital assets net of accumulated depreciation, please provide a detailed schedule that disaggregates each balance. The schedule should report the gross capital asset balances and the gross accumulated depreciation, separately for each of the following categories: *Land, Buildings, Equipment, Improvements other than Buildings, Construction in Progress, Infrastructure* and any other categories you use to report material capital asset balances. Additionally, the schedule should report beginning of the year balances, additions, retirements and end of the year balances for each category. In accordance with GASB #42, component units must evaluate prominent events or changes in circumstances affecting capital or other assets to determine whether impairment has occurred.

### **Bonds and Notes Outstanding**

Please provide a schedule of bonds and notes outstanding net of unamortized discount or premium. Include detail of interest rates, amounts, and maturity dates as well as beginning of the year balances, additions, reductions, end of the year balances, and amounts due within one year.

### **Maturities of General Long Term Obligations**

Please provide a schedule of principal and interest requirements to maturity, presented separately for each of the next five years and in five year increments thereafter. If obligations include variable rates, please include the conditions under which interest rates change.

### **Capital and Operating Lease Schedules**

If you have not presented capital and operating lease schedules in your notes, please furnish them to us. The schedule must list the present value of future minimum lease payments for capital and operating leases (separately) for each of the next five years and in five year increments thereafter. The aggregate amount representing interest over those years must also be shown as a separate amount for each of the lease types.

### **Interagency Transactions**



The financial relationship between the reporting entity (the State) and the component units is the primary focus of GASB Statement 14, as amended by GASB Statement #39. The total dollar amount and volume of interagency transactions has made this one of the most difficult areas for us to report accurately and completely. The State must reconcile the amount reported as *Due to/from Component Units* with the amount you report as *Due to/from Primary Government*. Please provide a detailed list for any amounts due to/from Primary Government, including State appropriation number OR agency, program, and grant number.

If you combine amounts due to/from the Federal Government or State with any other receivable amounts on your financial statements, please provide a schedule that disaggregates these amounts.

Please also provide a detailed schedule of payments received from the State and the associated State appropriation number if the intended purpose of such payments is not evident from the face of the financial statements or in the note disclosures.

### **Moral Obligation Debt**

Entities with capital reserve provisions should provide a schedule showing the amount of bonds outstanding, the required debt reserve, and the moral obligation debt limit as of the end of the fiscal year.

### **REPORTING CERTAIN COMPONENT UNIT TRANSACTIONS**

Some component units should revise their note disclosures based on the following clarifications:

#### **State Cash Pool Funds**

Entities reporting year end balances in State cash pool funds should disclose the fund as an internal investment pool. The only entities investing in the State's cash pool are state agencies or component units of the State. In accordance with GASB 31, Certain Investments and External Investment Pools paragraph 22, the investment pool should be reported accordingly.

#### **Other Post-Employment Benefit (OPEB) Disclosures**

Component units who use the State's health insurance plans have OPEB liabilities and employer assets to record and disclose. Information for the most recent valuations can be found at <http://www.maine.gov/osc/admin/actuarialreports.htm> or by contacting April Newman.

#### **State Risk Management Insurance**

The State allows other entities to use the State's Risk Management insurance plans covering property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police and professionals, and a variety of other insurance products. In accordance with GASB 10 *Accounting and Financial Reporting for Risk Financing and Related Issues* paragraph 76, the State's activities do not meet the definition of public entity risk pool. The State is the largest participant in the fund and properly records these activities in an internal service fund.



## HOW TO REPORT

Please e-mail a copy of your audited financial statements and all required supporting schedules in Excel by **October 15, 2010** to: [april.d.newman@maine.gov](mailto:april.d.newman@maine.gov); with a copy to: [richard.foote@maine.gov](mailto:richard.foote@maine.gov). Submissions e-mailed do not need to provide subsequent hard copies.

If financial statements and supporting schedules cannot be provided by e-mail, please send one set to:

April Newman, CPA  
Office of the State Controller  
Financial Reporting and Analysis  
14 State House Station  
Augusta, Maine 04333-0014

Please send a duplicate copy to:

Dick Foote, Deputy State Auditor  
State Department of Audit  
66 State House Station  
Augusta, Maine 04333-0066

We would appreciate electronic submission if possible. Please identify primary contacts for follow-up questions from the Office of the State Controller and the Department of Audit, including: name, e-mail address, telephone and fax numbers.

April Newman, the Office's liaison with your agency, will be available to help you interpret the closing package instructions and to assist you in developing methodologies for compiling information in order to meet the October 15 deadline.

## RELEVANT ISSUES

The State of Maine implemented five GASB's during fiscal year ended June 30, 2010. In accordance with GASB reporting requirements, component units must adopt the GASB's during the same fiscal year so that reporting and disclosures to be consistent between calendar year and fiscal year end entities. GASB's to be implemented for December 31, 2009 year ends or June 30, 2010 year ends include: GASB 51 *Accounting and Financial Reporting for Intangible Assets*, GASB 53 *Accounting and Financial Reporting for Derivative Instruments* and GASB 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. Summaries of these statements can be found at <http://www.gasb.org/st/summary/gstsm51.html>, <http://www.gasb.org/st/summary/gstsm53.html> and <http://www.gasb.org/new/index.html>. Additional information about GASB 51 is also available on the State of Maine's website. GASB 58 only applies to governments that filed for Chapter 9 bankruptcy protection.

Two other GASB's were effective upon issuance. GASB 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. GASB 55 listed information that can be relied upon when considering an accounting position and recommended that we use the highest source of guidance.

GASB 56 clarified accounting and financial reporting standards for related party transactions, subsequent events and going concern considerations. Related party transactions should be looked at from a "substance over form" perspective rather than merely its legal form. Subsequent events are events or transactions that occur after year end and prior to financial statement issuance. Recognized events



(formerly Type 1) reflect changes in estimates because of additional evidence about conditions that existed at the Statement of Net Asset date. Management's estimates should be changed. Non-recognized events (formerly Type 2) reflect evidence of conditions that did not occur until after the Statement of Net Asset date. In order to keep financial statements from being misleading, these items should be disclosed. Going concern is assumed if an entity is unable to meet its obligations in the upcoming year or 15 months without substantial disposition of assets outside the ordinary course of operations, restructuring debt or submission to an oversight board. If going concern is determined, it must be disclosed.

Component units may also be eligible to adopt a portion of GASB 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. These provisions enable certain agent multiple-employer plans to elect use of the alternative measurement method instead of requiring valuations.

In accordance with GASB Statement 14, paragraph 65, you must disclose in the notes to your financial statements that you are a component unit of the State and describe your relationship with the State.

Entities that receive federal funding should be audited in accordance with generally accepted governmental auditing standards (yellow book). The audit opinion should indicate that you were "audited in accordance with *Governmental Auditing Standards*." Additionally, your entity should have an unqualified audit opinion.

## UPCOMING GASB PRONOUNCEMENTS

Two GASB's will need to be implemented in the upcoming year ends December 31, 2010 or June 30, 2011. GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and the remainder of GASB 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 54 clarifies reporting requirements related to greatly expanded fund balances. An easy version of GASB 54 is available at [http://www.gasb.org/plain-language\\_documents/Fund\\_Balance\\_Statement\\_PLA.pdf](http://www.gasb.org/plain-language_documents/Fund_Balance_Statement_PLA.pdf). GASB issued Statement 57 on December 31, 2009. It amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Its announcement is located at <http://www.gasb.org/new/index.html>.

If you have any questions related to the guidance package or any other issue related to the implementation of GASB Statement 14, please contact **April Newman** by phone at (207) 626-8436 or by email at [april.d.newman@maine.gov](mailto:april.d.newman@maine.gov).

IF YOU SUBSEQUENTLY CHANGE ANY INFORMATION THAT HAS BEEN PROVIDED TO OUR AUDITORS IN RESPONSE TO A REQUEST FROM THEM, PLEASE FURNISH DUPLICATE COPIES OF THOSE CHANGES TO US.

**Thank you very much for your careful attention in completing this reporting package. We sincerely appreciate your time and assistance.**