

STATE OF MAINE

GUIDANCE PACKAGE FOR COMPONENT UNITS



*FOR AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011*



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REPORTING REQUIREMENTS

The Office of the State Controller will prepare a Comprehensive Annual Financial Report (CAFR) for fiscal year 2011 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
Efficiency Maine Trust	Maine Rural Development Authority
Finance Authority of Maine	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, 2011**, 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 15th 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

All component units will be restating their fund balances for governmental financial statement purposes, as required by GASB 54. If the total amount of June 30, 2010 fund balance changes (regardless of presentation) or government-wide net assets have been restated (or December 31, 2009 for calendar year entities), please include a detailed schedule reconciling to the June 30, 2010 (or December 31, 2009) total 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, 2011** to: april.d.newman@maine.gov; with a copy to: 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 each of the following individuals:

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

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 AND UPCOMING DEADLINES

GASB Statement	GASB Title	Implementation Date	
		State Fiscal Year	Year End for CU's
54	Fund Balance Reporting and Governmental Fund Type Definitions	2011*	December 31, 2010 or June 30, 2011
59	Financial Instruments Omnibus	2011	December 31, 2010 or June 30, 2011
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2012 Only for employers in non-State administered plans with fewer than 100 participants	December 31, 2011 or June 30, 2012
60	Accounting and Financial Reporting for Service Concession Arrangements	2013*	December 31, 2012 or June 30, 2013
61	The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34	2013	December 31, 2012 or June 30, 2013
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	2013*	December 31, 2012 or June 30, 2013

* These statements require retroactive restatement for all periods presented.



GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions* clarified definitions for governmental funds and restructured how entities report governmental fund balances in Governmental Fund Financial Statements. Funds may need to be researched further in order to be reported correctly for CAFR purposes. The GASB also changes note disclosures and RSI information.

Component units may be eligible to adopt a portion of GASB 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Certain provisions related to employer reporting were effective last fiscal year. Provisions of Statement 57 related to plan reporting under GASB 43 take effect during this fiscal year.

GASB 59 *Financial Instruments Omnibus* addressed several GASB's related to valuation and disclosure of financial instruments.

- Revised NCGA Statement 4 Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences. Language previously used was amended as follows:

~~State and local governments are subject to many types of claims. These include those arising out of: a) employment, such as worker compensation and unemployment claims; b) contractual actions, such as claims for delays or inadequate specifications; c) actions of government personnel, such as claims for medical malpractice, damage to privately owned vehicles by government-owned vehicles and improper police arrest; and d) governmental properties, such as claims relating to personal injuries and property damage.~~ Those claims include contractual actions, such as claims for delays or inadequate specifications on contracts, or for guarantees of the indebtedness of others that are not investment derivative instruments entered into primarily for the purpose of obtaining income or profit, property tax appeals, and unemployment compensation claims.

- Revised GASB 25 and 43's reporting for employee pension plan assets in unallocated insurance contracts (UIC's). UIC's had been exempt from fair market value measurement. GASB 59 states that unallocated insurance contracts that are nonparticipating interest-earning investment contracts should be measured at contract value and those that are participating should be measured at fair value.
- Clarifies 2a7like external investment pool definition in GASB 31. This change does not impact the Treasurer's Cash Pool which meets the definition of an internal investment pool.
- Changed the scope of GASB 40 to exclude an interest rate risk disclosure for mutual funds, external investment pools, or other pooled investments that hold a mix of debt and equity investments.
- Amended GASB 53 in 4 areas:
 - It excluded contracts with certain types of non-performance penalties, non exchange traded revenue contracts, and federal guarantees of student loans and state guarantees of industrial development debt from its reporting requirements.
 - It included in its scope financial guarantees associated with debt so that an investment portfolio would carry all of these investments at fair market values.
 - It limited GASB 53's scope to derivative instruments that are entered into as investment derivative instruments primarily for the purpose of obtaining income or profit.
 - Amended one of the criteria used in defining leveraged yield in paragraph 64(1)(4). The holder's initial rate of return on the companion instrument is at least doubled.

For fiscal year 2013, the State will notify existing component units directly if their entity no longer meets GASB's definition for inclusion in the State's CAFR.



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.

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.

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.