|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | YEAR-END ACTIVITY CHECKLIST | ATTACHMENT 1 | |
|  |  |  |  | JUNE 30, 2022 |  | |
|  |  |  |  |  | SCHEDULED | |
|  |  |  |  |  | COMPLETION | |
|  |  |  |  | File Revision Date: 05/26/22 | DATE | |
| I. | BUDGET REPORTING BASIS CLOSING ACTIVITIES | | | | |  | |
|  |  | - | Capital Projects Closing Reports (June BD 725) | | | Refer to | |
|  |  | - | Operating Code(s) Closing Reports (June BD 701) | | | Cash Close-out Memo | |
|  |  |  |  |  | |  | |
|  |  |  |  |  | |  | |
| II. | 13th PERIOD ACTIVITIES AND ACCRUAL GUIDELINES:  **The accrual process dates are guidelines for agencies and universities. The cut-off of July 22 for A/P and A/R should allow sufficient time to record material A/P and A/R accruals. However, professional judgment should be applied to see if additional material A/P and A/R accruals would need to be recorded. Each agency/university should determine materiality for their entity.** | | | | |  | |
|  |  |  |  |  | |  | |
|  | A. | REVERSING PROCESS: | | | |  | |
|  |  | - | Verify automated reversals are complete. Verify correctness. | | | **7/5** | |
|  |  | - | Key and update any manual reversal entries. Verify completion. | | | **7/5** | |
|  |  |  |  |  | |  | |
|  | B. | CURRENT YEAR NCAS ACCRUAL PROCESS: | | | |  | |
|  |  | - | Enter/Flag accruals in AP for invoices posting back to June 30th. May begin the process in May and continue until **July 22.** | | | **7/22** | |
|  |  | - | Enter/Flag revenue accruals in BC for deposits posting back to June 30th that are received **July 5 through July 22.** | | | **7/22** | |
|  |  | - | Review Flagged Reports for completion and correctness | | | **7/25** | |
|  |  | - | Request injection of Flagged accruals by | | | **7/27** | |
|  |  | -  - | Key and Update manual accruals and adjustments.  All 6/30 elimination transfer related entries for accounts 438XXX and 538XXX must be complete by **8/12**. Notify OSC analyst if entries needed after **8/12**.  **FIXED ASSETS: (NCAS FAS users only)**   * - Last available day for entering fixed asset information in the fixed asset system (FAS) * - Fixed asset final reports available   **GASB 68 PENSION ENTRIES: (For Certain Proprietary Funds)**  OSC will provide GASB 68 information to the proprietary funds that will be required to record 13th period entries for their proportionate share of the net pension liability, pension expense and deferred outflows/deferred inflows. OSC will also provide the net pension liability information needed to complete the ACFR worksheet 310.  -GASB 68 pension entries recorded in NCAS  **GASB 75 OPEB ENTRIES: (For Certain Proprietary Funds)**  OSC will provide GASB 75 information to the proprietary funds that will be required to record 13th period entries for their proportionate share of the net OPEB liability, OPEB expense and deferred outflows/deferred inflows. OSC will also provide the net OPEB liability information needed to complete the ACFR worksheet 310.  -GASB 75 OPEB entries recorded in NCAS  **COMPENSATED ABSENCES REPORT: (For HR-payroll users)**  Agencies on Integrated HR-payroll system with proprietary funds will post the compensated absence entry in the accounting system and complete ACFR worksheet 310. OSC will provide the information needed to complete the ACFR worksheet 310 and the compensation absences report to prepare the entry  -Agencies should have all time entered on Integrated HR-payroll system by  -The compensated absence report for proprietary funds will be e-mailed to proprietary fund agencies by   * -Agencies with proprietary funds should record the compensated absences accrual entry by | | | **8/1**  **8/12**  **7/20**  **7/21**  **8/5**  **8/5**  **7/18**  **8/1**  **8/5** | |
|  | C. | GASB REPORTS: | | | |  | |
|  |  | - | Review 6/30 GASB Trial Balances for completion and correctness | | | **8/10** | |
|  |  | - | View NCAS Fin. Statements in DSS for completion and correctness | | | **8/10** | |
|  |  |  |  |  | |  | |
| III. |  | PREPARE YEAR-END CLOSE PACKAGE | | | |  | |
|  |  |  |  |  | |  | |
|  | A. | Upload package (ACFR Excel workbook(s), letter of certification, package narratives, and audit report with T101 transmittal worksheet per OSC Policy 105.4 Submission of Audit Reports, if applicable) via the [OSC Year-End Financial Reporting Packages site](https://ncconnect.sharepoint.com/sites/CAFR). | | | | **8/15 Tier 1**  **8/22 Tier 2**  **8/26 Tier 3**  **8/29 all others** | |
|  |  | **Please note the date on letter of certification should be the date the package is submitted. The letter cannot be dated earlier than the submission date.** | | | |  | |
|  |  |  |  |  | |  | |
|  | B. | Universities upload foundation template to [OSC Year-End Financial Reporting Packages site](https://ncconnect.sharepoint.com/sites/CAFR). | | | | **9/12** | |
|  |  |  |  |  | |  | |
|  | C. | Universities, UNC Hospitals, and NC Education Lottery upload formal notes and fiduciary financial statement to [OSC Year-End Financial Reporting Packages site](https://ncconnect.sharepoint.com/sites/CAFR). | | | | **9/21** | |
|  |  |  |  |  | |  | |
|  | D. | Agencies with year-end 6/30 (except for the Department of State Treasurer) that are required to submit an audit report per OSC Policy 105.4 Submission of Audit Reports, upload audit report, T100 transmittal form, and the updated ACFR workbook and narratives as applicable to [OSC Year-End Financial Reporting Packages site](https://ncconnect.sharepoint.com/sites/CAFR). (DST’s deadline is 10/17) | | | | **9/30** | |

### Operating indicators by function (105)

GASB 44 requirement of operating indicators presented within the statistical section. If applicable to your agency provide statistical information for current fiscal year as indicated on the worksheet. If significant changes from the prior year occur in the counts, provide explanations for the changes at the bottom of the worksheet. If additional space is needed for explanations, use the Explanations tab of the package.

### Service concession arrangements (110)

GASB 60 requires disclosure of information related to service concession arrangements. Review criteria on worksheet to determine if your agency has an SCA to report. If you answer yes to this worksheet, you will also need to complete the related **ACFR Package Narrative** disclosure.

### Government Combinations and Disposals of Government Operations (120)

GASB 69 requires explanation and proper accounting for government merger or disposal of government operation. Review worksheet to see if any government combination or disposal applies. If any answer is yes on this worksheet, related **Package Narrative** disclosure is required.

### Changes in Capital Assets (201)

**NA for agencies that have governmental fund assets (GASB 5100) and use the NCAS Fixed Asset System (FAS).**

**Worksheet 201 – State agencies that report governmental fund assets (GASB 5100): Agencies that report governmental fund assets must select a function in the drop-down box and enter the GASB Fund No as 5100. DOT (Transportation), DPS (Public Safety), Commerce (Economic Development)**

**State agencies that report internal service funds: Internal service fund assets must select the General Government function in the drop-down box. DOA (General Government) and DIT (General Government)**

**New for FY 2022- GASB 87 Leases Implementation – A Right to Use Leased Asset section was added at the bottom of the Worksheet 201. Please complete this section for previous capital leases or operating leases that were recorded as Right to Use Lease Assets in FY 2022 due to GASB 87.**

**GASB 87 is being implemented retroactively. Right to Use Leased Assets added to worksheet 201 should be added in the prior year asset adjustment column. The corresponding capital asset that is being recorded as a Right to Use asset will need to be removed from the capital asset, depreciable section of the worksheet 201 under the prior year asset adjustment column.**

**Please make sure to complete the 430G/430BTA Restatement Worksheet**

**Balance at June 30, (Prior Year)** Balance per Trial Balance

**Prior Year Asset Adjustments -** If there are any prior year adjustments, make sure worksheets 430 and 431 are completed.

Note: The 431 is not required for governmental funds with capital asset restatements (GASB 5100 assets).

**Current Year Transfer of Assets -** Two columns (Assets Transferred In and Assets Transferred Out) to include the following types of transfers

*Between Assets:* Assets transferred from one asset type to another asset type during the current fiscal year. (*Example:* Transfer from *Buildings to General Infrastructure.*)

*Between GASB Funds (Intra-Agency) and Between GASB Funds and Agencies (Inter-Agency):* Assets transferred to/from this GASB fund and another GASB fund and also, transferred to/from your agency and another agency.

*Between Agencies (Inter-Agency):* Assets transferred to/from your agency and another agency. Assets remain within this GASB fund.

**Additions –** Two columns to separate assets additions that were acquired through purchase from those acquired by donation. The purchased additions should include increases in construction in progress.

**Retirements** FY 2022 retirements.

**Decrease in CIP –** This column is used to account for the capitalization of items constructed. This column must net to zero. If an asset had additional cost during the year, before it was capitalized, the additional cost should be included in purchased additions and the total cost should be recorded as a decrease in CIP. This column should only be used when a project is complete and the asset has been put into service.

**Balance at June 30, (Current Year)** This balance must equal the NCAS general ledger balance and agree to the GASB fund balance sheet.

**NC Turnpike Authority: For each individual project with a CIP, CSID, or PID balance of $25 million or more at 6/30/2022, please complete the schedule in an attached “ACFR Package Narrative”. For all remaining projects below the threshold, please provide the total of those projects on the narrative worksheet. If there are any press releases or other available information for the projects on the agency website, please forward copies with the narrative. (NA for Component Units)**

**Governmental Fund Capital Assets (202)**

Completed only by agencies that have governmental fund assets and use the Fixed Asset System (FAS). NA for agencies not on the FAS, proprietary funds and component units.

**For agencies that have a Decrease in CIP during the fiscal year, there should be an increase in a fixed asset. The Decrease in CIP column should net to zero. The fixed asset should also be added to the FAS during the fiscal year.** The columns for CIP are explained as follows:

**Balance July 1** – Prior year balance from previous year’s Comprehensive Annual Financial Report.

**Prior year adj** – Used to record errors or adjustments made to CIP that occurred in prior years.

**Additions** – To record current year CIP additions.

**Deletions** – To record current year deletions of CIP including closed out CI projects or moving from one CI project to another CI project.

**Decrease in CIP** – To remove completed CI projects from CIP to a fixed asset.

**Balance June 30** – Calculated total of CIP activity.

NOTE: Transfers in and transfers out were removed from the CIP calculation because there should be no transfers in CIP.

**For each individual project with a CIP, CSID, or PID balance of $25 million or more at 6/30/2022**, **please complete the schedule in an attached “ACFR Package Narrative”. For all remaining projects below the threshold, please provide the total of those projects on the narrative worksheet. If there are any press releases or other available information for the projects on the agency website, please forward copies with the narrative. (NA for Component Units)**

**Capital Asset Reconciliation Certification (203)**

Agencies will use the **ASSETSUM** portion of the **“FA Capital Asset Activity”** report from the fixed asset system (FAS) to answer question 1. The report is in XPTR and will be available July 2022 after FAS has closed for FY 2022.

If you answer No to question 1 on this worksheet, you will also need to answer question 2 or 3 as appropriate.

* **Question 2** will be answered if your agency has prior year acquisitions and prior year adjustments to your assets. Please make sure to complete worksheet 430G.
* **Question 3** will be answered if your agency has material asset adjustments that did not get recorded in **FAS** in FY 2022 before **FAS** closed.
* **Question 4** will be answered if your agency has any previous capital leases that were reclassed to a right to use asset in FY 2022. Please answer questions a. and b under question 4.
* **Question 5** will be answered if your agency has any previous operating leases that were recorded as right to use assets in FY 2022. If yes, please provide the additional information as listed in the question.

Adjustments will only be accepted if documentation is provided from the Fixed Asset System by August 26, 2022, showing that the adjustments have been entered in the Fixed Asset System.

The **FA500-A Capital Asset Cost Adjustments Prior Year** and the **FA500-G Capital Asset Prior Year** **Acquisition FY 2022** reports from FAS can be used as documentation for **Question 2**.

The **FA500-K Capital Asset Activity Report FY 2023** report from FAS can be used as documentation for **Question 3**.

Please have the individual completing the Fixed Asset Reconciliation print their name at the bottom of the worksheet, certifying that the “FA Capital Asset Activity Report” has been verified and reconciled to the capital assets held at your agency.

### Accumulated Depreciation (210)

Worksheet 201 Function – State agencies that report governmental fund assets (GASB 5100): Starting in FY2022, agencies that report governmental fund assets must select a function in the drop-down box and enter the GASB Fund No as 5100. DOT (Transportation), DPS (Public Safety), Commerce (Economic Development)

State agencies that report internal service funds: Starting in FY2022, internal service fund assets must select the General Government function in the drop-down box. DOA (General Government) and DIT (General Government)

New for FY 2022- GASB 87 Leases Implementation – A Right to Use Leased Asset section was added at the bottom of the Worksheet 210. Please complete this section for previous capital leases or operating leases that were recorded as Right to Use Lease Assets in FY 2022 due to GASB 87.

GASB 87 is being implemented retroactively. Accumulated depreciation for Right to Use Leased Assets should be added to worksheet 210 in the prior year asset adjustment column. The corresponding capital asset that is being recorded as a Right to Use asset will need to have accumulated depreciation removed from the capital asset, depreciable section of the worksheet 210 under the prior year asset adjustment column.

Please make sure to complete the 430BTA Restatement Worksheet

Completed only by BTA's and agencies not on NCAS FAS (DOT and Commerce Div of Employment Security). DPS also reports Correction Enterprises on the 201/210 worksheets even though their capital assets are reported in FAS.

The prior year adjustment column would include amounts related to fund reclassifications. If there are prior year adjustments, these adjustments should be reflected as a restatement in the financials for the proprietary funds (BTA’s), and worksheets 430 and/or 431 must be completed. If there are assets with accumulated depreciation balances transferred to/from your agency, the accumulated depreciation balances would go in the Transfers In/Out column. If there are current year adjustments to accumulated depreciation, these amounts would go in the appropriate Accumulated Depreciation Increases/Decreases column with an explanation for the adjustment noted at the bottom of the worksheet. The accumulated depreciation increases column should tie to depreciation expense on the agency/university’s operating statement. If the two amounts do not tie, provide an explanation for the difference.

**Capital Asset Statistics (220)**

GASB 44 requirement of capital asset disclosure presented within the statistical section. If applicable to your agency, provide quantity of capital assets as indicated on the worksheet. If significant changes from the prior year occur in the counts, provide explanations for the changes at the bottom of the worksheet. If additional space is needed for explanations, use the Explanations tab of the package.

### Leases – (301)- New FY 2022

GASB Statement 87 is new for fiscal year 2022. For note disclosure purposes, GASB 87 defines a lease as a contract that conveys control of the right to use another entity’s non-financial asset as specified in a contract for a period of time in an exchange or an exchange-like transaction. Leasing arrangements as defined by GASB 87 are financings of the right to use a lease asset. See the [GASB 87 Financial Reporting Update](https://www.osc.nc.gov/state-agency-resources/north-carolina-accounting-system-ncas/statewide-financial-reporting/gasb-resources/gasb-87) for more information.

WS 301 is to be completed for Leases that fall under the GASB 87 definition. If future lease payments extend beyond 2073, include a separate schedule breaking out the lease payments in 5-year increments until the end of the lease.

All questions under the main table are required to be answered for all entities. Leases between component units or between the primary government and component units are required to be presented separately in the financial statements. The lease liability and lease receivable between the entities must agree.

Additional disclosures are required for lease payables reported in the Lessee Section of WS 301. Please complete the **WS 301 Narrative in the ACFR Package Narratives.**

Additional disclosures are required if you as the Lessor reported lease receivables in your financial statements that fall under the definition of GASB 87. Please complete the **WS 301 Narrative in the ACFR Package Narratives.**

### Changes in Long –Term Liabilities and Short-Term Debt (305 and 310)

For note disclosure purposes, GASB Statement 88 defines debt as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Exceptions include leases and accounts payable. Note disclosures for direct borrowings and direct placements of debt should be separated from other debt. See the [GASB 88 Financial Reporting Update](https://www.osc.nc.gov/state-agency-resources/north-carolina-accounting-system-ncas/statewide-financial-reporting/gasb-resources/gasb-effective-fy-2019) for more information.

Col. A – Balance as of July 1, 2021 – Include current and non-current portions.

Col. B – Prior year restatements including fund reclassifications.

Col. C – Long-term liabilities which have become agency liabilities during the current fiscal year and have been appropriately recorded in the agency’s General Ledger.

Col. D – Those portions of long-term liabilities paid by the agency during the current fiscal year and recorded as a reduction of long-term liabilities in the General Ledger. Also, include debt defeased during the current year.

Col. E – Balance as of June 30, 2022 – Balance per General Ledger at year end. Must agree to balance sheet amount for each item listed in each caption. Include current and non-current portions.

Col. F – Current portion of long-term liabilities due and payable within one year (July 1, 2022 – June 30, 2023). For BTAs, balances must agree to the current liability captions on the statement of net position.

Notes from direct borrowings – An example of direct borrowings is a government entering into a loan agreement with a lender, such as a bank loan. Direct borrowings have terms negotiated directly with a lender and are not offered for public sale. Classify this type of debt as notes from direct borrowings. Guaranteed Energy Savings contracts should be classified as notes from direct borrowings.

Direct placements – An example of direct placements is a government issuing a debt security directly to an investor, such as the sale of a new debt security issue to a limited number of buyers rather than to the general public. Direct placements have terms negotiated directly with an investor and are not offered for public sale. Bonds payable that are not offered for public sale should be classified as notes from direct placements.

Accrued interest –This line is only applicable to agencies with outstanding balances of bonds, notes from direct borrowings, direct placements, and leases payable. Include interest expense incurred but not paid through June 30. Such interest is not recorded in the fund financial statements under the modified accrual basis of accounting. This data will be used by OSC to prepare an entry for the government-wide financial statements (full accrual basis). The beginning balance should be the amount reported in the prior year’s ACFR worksheet, the addition should be the current year’s accrued interest, and the deletion should be the amount of accrued interest that was paid in the current year. For existing leases, the accrued interest should be calculated as of July 1, 2021 and reported in the PY Adjustments column and will most likely equal the deletions column. For agencies that report accrued interest for bonds, notes, and leases, include the amount of interest related to leases on the Explanations tab so OSC can determine the portion of the interest that is related to leases.

For increases in General Obligation Bonds (excluding refundings), record the proceeds in account 437210 Proceeds – General Obligation Bonds. Record principal payments on General Obligation Bonds in account 535311 – Bond Principal Payments.

For increases in Special Indebtedness (excluding refundings), record the proceeds in account 437219 Proceeds – Limited Obligation Bonds or account 437216 Certificates of Participation. Record principal payments on Special Indebtedness in account 535311 – Bond Principal Payments.

For increases in GARVEE Bonds (excluding refundings), record the proceeds in account 437218 Proceeds – Grant Anticipation Revenue Vehicle Bonds. Record principal payments on GARVEE Bonds in account 535311 – Bond Principal Payments.

For increases in General Obligation Bonds, Special Indebtedness, or GARVEE Bonds due to a refunding, record the proceeds in account 437212 – Proceed of Refunding Debt. Record payments to an escrow agent from refunding bond proceeds that are to be placed in an irrevocable trust in account 535333 – Payments to Refunding Debt Escrow Agent.

For increases in Leases Payable, record the proceeds in account 437213 Proceeds - Leases and the expenditure in the appropriate property, plant and equipment expenditure account with a 6/30 date. Record principal payments on Leases Payable in account 535313 - Lease Principal Payments.

For increases in notes from direct borrowings, record the proceeds in account 437214 Proceeds – Other Financing and the expenditure in the appropriate property, plant and equipment expenditure account with a 6/30 date. Record principal payments on notes from direct borrowings in account 535314 - Other Principal Payments.

**Worksheet 305 – Function:** State agencies must select a function in the drop-down box. The function selected relates to the following liabilities: arbitrage rebate payable, death benefit payable, workers compensation, pollution remediation payable, compensated absences, and cost settlement payable.

**Worksheet 305 – Compensated absences:** The compensated absences line only needs to be completed by General Assembly. For all other governmental agencies, compensated absences will be reported on a statewide basis by OSC.

**Worksheet 305 (General Assembly only) and 310 – Compensated absences:** For compensated absences, any difference between the beginning balance on the Changes in Long-Term Liabilities worksheet and the beginning balances on the compensated absences report that are not errors or fund reclassifications but are due to employees that have transferred to another agency, retirements, separations and should be included in the “Deletions” column (not the “Prior Year Adjustments” column).

**Worksheet 305 and 310 – Other:** If a long-term liability caption is needed and is not provided, contact OSC to determine if it can be classified with another liability or if a new caption is required.

**Worksheet 305 and 310 – Short-term debt portion:** Include any short-term debt activity for the current fiscal year. Disclosures regarding direct borrowings and direct placements of debt should be separated from other debt. For each type of short-term debt, describe the debt activity and the purpose for which the debt was issued on the appropriate ACFR package narrative worksheet.

### Annual Debt Service Requirements (315-320)

For note disclosure purposes, GASB Statement 88 defines debt as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Exceptions include leases and accounts payable. Note disclosures for direct borrowings and direct placements of debt should be separated from other debt. See the [GASB 88 Financial Reporting Update](https://www.osc.nc.gov/state-agency-resources/north-carolina-accounting-system-ncas/statewide-financial-reporting/gasb-resources/gasb-effective-fy-2019) for more information.

Information to complete this worksheet should be obtained from the amortization schedule for the related debt. A separate worksheet should be completed for each type of payable (e.g., bonds, special indebtedness, notes from direct borrowings, or direct placements). See additional information for notes from direct borrowings and direct placements in the instructions for the 305/310 worksheets. Short-term debt (line of credit, commercial paper, notes from direct borrowings, direct placements, anticipation note) should be excluded from this worksheet.

Interest requirements for variable rate debt should be determined using the rate in effect at June 30, 2022.

The **FCCS Entity** drop down box must be completed. Governmental Funds and Internal Service Funds should select “GovtAct”. Enterprise Funds and Universities should select “BTAAct”.

For Build America Bonds (BABs), the interest requirements should be determined using the taxable rate (not the effective yield, which factors in the federal interest subsidy), and the range of interest rates should only include the taxable rate. Additionally, if any BABs have been issued, provide the outstanding balance at June 30 (see question at bottom of the sheet).

The three shaded boxes on the right must be completed (original issue amount, range of interest rates, and final maturity date).

For agencies with variable rate debt, the overall range of interest rates block should be completed as follows:

* For variable rate debt, interest rates in effect at year-end should be included in the overall range.
* For variable rate debt with interest rate swaps, the synthetic fixed rate should be included in the overall range.

### Pollution Remediation Obligations (322)

This worksheet has 3 separate sections: 1) Pollution Remediation Liability 2) Obligating Events, and 3) Capitalization Criteria. In section 1, indicate the estimated recoveries that reduced the pollution remediation liability. Under GASB 49, a government’s pollution remediation liability should be reduced by estimated recoveries that are not yet realized or realizable (Note: expected recoveries that are realized or realizable should be recognized separately from the liability as recovery assets). In section 2, indicate the obligating event(s) that triggered the recognition of a liability. The occurrence of an obligating event is an absolute precondition for recognizing a pollution remediation liability. That is, if an obligating event has not occurred, then a liability should not be recognized in the financial statements. On the other hand, once an obligating event has occurred, recognition of the related liability is mandatory, assuming that is it considered to be measurable. If any of the pollution remediation outlays were capitalized, indicate in section 3 the capitalization criterion that applies. Remediation outlays can only be capitalized in the 4 specific situations referenced in GASB 49.

If this worksheet applies to your agency, you will also need to complete the related **ACFR Package Narratives** disclosures.

**Certain Asset Retirement Obligations (323)**

GASB 83 requires recognition of a liability and corresponding deferred outflows of resources for an asset retirement obligation (ARO) if the liability is incurred and reasonably estimable. An ARO is a legally enforceable liability associated with the retirement of certain tangible capital assets. Examples of tangible capital assets that could have an ARO are decommissioning of nuclear reactors; removal and disposal of wind turbines in wind farms; dismantling and removal of sewage treatment plants; and removal and disposal of X-ray machines and MRI machines (this is not an all inclusive list). This worksheet is to be completed only if you have an ARO. On page one of the worksheet, indicate the external and internal obligating events that caused the incurrence of a liability. Also on page one, provide accounting and financial reporting related to the ARO. Complete the first part if this is the first year the ARO will be recognized. On page two, complete the second part for all subsequent years of recognition.

Related **ACFR Package Narrative** disclosures are required for recognition of an ARO. If the ARO or portions thereof is not reasonably estimable, provide disclosure of this fact and the reasons thereof in the related **ACFR Package Narrative**.

### Pledged Revenue Narrative (326)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| For each period in which secured debt1,2 remains outstanding, GASB Codification S20.120 - .121 | | | | | | | | | | | | | | | | | | | | |  |
| requires governments to disclose, in the notes to the financial statements, information about specific | | | | | | | | | | | | | | | | | | | | |  |
| revenues pledged.  Notes   1. Examples of secured debt include revenue bonds, special indebtedness, direct placements, notes from direct   borrowings, certificates of participation, GARVEE bonds (DOT only), and borrowings by the Division of  Employment Security.   1. If a specific revenue stream is pledged as security for multiple debt issuances, the required disclosures   may be combined in a single note. | | | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |
|  | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| If applicable, prepare a note disclosure in the attached **ACFR Package Narratives** that includes the | | | | | | | | | | | | | | | | | | | | |  |
| following information about specific revenues pledged: | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | * Identification of the specific revenue pledged and the approximate amount of the pledge. Generally, | | | | | | | | | | | | the approximate amount of the pledge would be equal to the remaining principal and interest | | | | | | | | | | | | requirements of the secured debt. | | | |  |  |  |  |  |  |  | | * Identification of, and general purpose for, the debt secured by the pledged revenue. | | | | | | | | | | | | * The term of the commitment—that is, the period during which the revenue will not be available for | | | | | | | | | | | | other purposes. |  |  |  |  |  |  |  |  |  |  | | * The relationship of the pledged amount to the total for that specific revenue, if estimable—that is, | | | | | | | | | | | | the proportion of the specific revenue stream that has been pledged. | | | | | | | | |  |  | | * A comparison of the pledged revenues recognized during the period to the principal and interest | | | | | | | | | | | | requirements for the debt directly or indirectly collateralized by those revenues. For this disclosure, | | | | | | | | | | | | pledged revenues recognized during the period may be presented net of specified operating expenses, | | | | | | | | | | | | based on the provisions of the pledge agreement; however, the amounts should not be netted in the | | | | | | | | | | | | financial statements. | |  |  |  |  |  |  |  |  |  | | | | | | | | | |  | | | | | | | | | | | |  |
| Below is further guidance on two of the disclosure items in the second table of Note 11B of the University Proforma.   1. **Total Future Revenues Pledged** - This amount should equal the remaining principal and interest requirements over the life of the secured debt. 2. **Estimate of % of Revenue Pledged** - This estimate should be calculated as follows:  the remaining principal and interest requirements over the life of the secured debt divided by the total of the specific revenue stream that has been pledged over the remaining life of the secured debt. For example, if the remaining principal and interest requirements over the life of the secured debt were $10 million and the total of the specific revenue stream pledged over the life of the secured debt was $100 million, then this estimate would be 10%. The total specific revenue stream pledged could be based on historical averages, adjusted for inflation. | |  |  |  |  |  |
|  |  | | | | | | |

### Debt Defeasances Worksheets (330)

In Section A, provide the following information on debt defeased in prior fiscal years: 1) descriptive name of defeased debt identifying direct placements and direct borrowings separately from other debt (Dept. of Transportation should indicate Highway Fund or NC Turnpike Authority), 2) outstanding balance of defeased debt at June 30 (in thousands), 3) the final payment date (i.e., the date when the defeased debt will be paid off in full), and 4) whether the risk of substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited. If the substitution is not prohibited by State laws, trust or escrow agreements, bond indentures, etc., disclose the balance at June 30 (in thousands) in the column titled “Balance (in thousands) for which risk of substitution of monetary assets exists”. In most instances, this balance will equal the total balance outstanding at June 30. Defeased debt should not be reported as a liability on your financial statements.

Section B applies if any debt was defeased in the current fiscal year. A note disclosure on current year debt defeasances should be included in the attached ACFR Package Narratives, which include proforma disclosures for current refundings, advance refundings, and debt defeased using only existing resources. Disclosures regarding (a) direct borrowings and direct placements of debt should be separated from (b) other debt. If the new issuance or refunded debt is a direct placement or notes from direct borrowings, ensure the disclosures properly identify this in the name of the old and/or new bond issue. (Note: the narratives should exclude disclosures of any debt defeased in prior fiscal years). Debt defeased during the current fiscal year should be removed from your books as a liability.

### Nonexchange Financial Guarantees (338)

GASB 70 requires disclosure of information related to nonexchange financial guarantees. This worksheet is only applicable to certain agencies/institutions as defined on the worksheet. If applicable, review the criteria on the worksheet and in the Financial Reporting Update link contained within the worksheet to determine if your agency/institution has a nonexchange financial guarantee to report. If you answer yes to this worksheet, you will also need to complete the related **ACFR Package Narrative** disclosure.

### Contingencies Worksheet (345)

Contingent liabilities should be accrued when it is both 1) **probable** that a liability has been incurred at the financial statement date, and (2) the amount of the loss can be reasonably estimated. If accrued in the financial statements, no disclosure is required on worksheet 345.

Disclosures of material contingent liabilities of the State Entity is required under the following conditions: (1) the chance that the State entity will actually incur the liability is better than a REMOTE (either POSSIBLE or PROBABLE) likelihood and (2) the amount of the possible liability is known or can be reasonably estimated, or the amount of the probable/possible liability cannot be reasonably estimated. OSC defines a material contingent liability threshold as $20 million or greater.

GASB defines the terms probable, reasonably possible, and remote as follows:

* Probable – the future event or events are likely to occur.
* Reasonably possible - the chance of the future event or events occurring is more than remote but less than likely.
* Remote - the chance of the future event or events occurring is slight.

Material contingent liabilities must be referenced in the Certification Letter. The Certification Letter should indicate material contingent liabilities are included in the Contingencies Worksheet and related narrative. Material contingent Liabilities must be included on the Contingencies Worksheet.

### Financial Reporting for Federal Coronavirus (COVID-19) Funds Worksheet (375-A)

***All agencies and online component units (NC School of Science and Math, State Health Plan, NC Global TransPark, and NC Ports Authority) are required to complete section A of this worksheet.*** Offline component units using the 905 template or offline statements in the ACFR package are not required to complete this worksheet. The purpose of this worksheet is to **identify the amount of federal revenues that have been received in response to the coronavirus disease (COVID-19**) including federal funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA) in order for OSC to properly report the information in the ACFR. OSC plans to report federal revenues related to COVID-19 separately from other federal revenues. This worksheet will provide the information necessary to break out the COVID-19 federal revenues. ***Any agency that received COVID-19 funds directly from federal agencies*** (not indirectly from another state or local agency) ***is required to complete section B of this worksheet.*** If there is not sufficient space to provide this information on the 375-A Worksheet, an additional tab can be added to this workbook using the instructions on the “Instruct” tab in the ACFR package or you can submit a separate spreadsheet with the ACFR package. If information is provided on a separate worksheet or in another spreadsheet, add a reference in the appropriate section of the 375-A Worksheet so OSC will know where to find the information. Ensure all required information is submitted.

Account Number: The account number will be the 432XXX account that was used to record the federal COVID-19 revenues received directly from the federal agencies.

Budget Code: We anticipate that these revenues will be reported in a 3-type budget code.

Center: Provide the full center.

Cash Basis: Provide the cash basis revenue amount for COVID-19 funds received directly from federal agencies as of June 29th. This is the cash basis amount before accruals are posted. This amount will be presented as actual federal COVID-19 revenues in the budget to actual financial statements presented in the ACFR.

Accrual Basis: Provide the GAAP basis revenue amount for COVID-19 funds received directly from federal agencies after accruals have been posted as of June 30th. This amount will be presented as Federal COVID-19 revenues in the basic financial statements presented in the ACFR.

Section B, item 1 is to be completed by OSC FRU 90 only. OSC FRU 90 will provide the federal revenues for the Coronavirus Relief Reserve and Reserves for the American Rescue Plan Act.

### Budget Reporting for Federal Coronavirus (COVID-19) Funds Worksheet (375-B)

***All agencies are required to complete section A of this worksheet.*** Component units are not required to complete this worksheet. The purpose of this worksheet is to **identify 1) the certified budgeted amount approved by the Governor and General Assembly and 2) the authorized budgeted amount approved by OSBM for federal revenues in response to the coronavirus disease (COVID-19**) including federal funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA) in order for OSC to properly report the information in the ACFR. OSC plans to report budgeted federal revenues related to COVID-19 separately from other budgeted federal revenues. This worksheet will provide the information necessary to break out the budgeted COVID-19 federal revenues. ***Any agency that was budgeted federal revenues for COVID-19 funds received directly from federal agencies*** (not indirectly from another state or local agency) ***is required to complete section B of this worksheet.*** If there is not sufficient space to provide this information on the 375-B Worksheet, an additional tab can be added to this workbook using the instructions on the “Instruct” tab in the ACFR package or you can submit a separate spreadsheet with the ACFR package. If information is provided on a separate worksheet or in another spreadsheet, add a reference in the appropriate section of the 375-B Worksheet so OSC will know where to find the information. Ensure all required information is submitted.

Account Number: The account number will be the federal revenue account (432XXX or 5388XX) that was budgeted for the COVID-19 federal revenues received directly from the federal agencies. Most of the time this will be the 5388XX account in the operating budget code.

Budget Code: We anticipate that these revenues will be reported in the operating budget code.

Center: Provide the full center.

Certified Budgeted Amount: Provide the certified budgeted amount in the original budget approved by the Governor and General Assembly. This amount will be presented as the original budget amount of Federal COVID-19 revenues in the budget to actual financial statements presented in the State ACFR.

Authorized Budgeted Amount: Provide the authorized budgeted amount in the final budget approved by OSBM. This amount will be presented as the final budget amount of Federal COVID-19 revenues in the budget to actual financial statements presented in the State ACFR.

Section B, item 1 is to be completed by OSBM only.

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### Fund Balance Classifications worksheets (401-415)

These worksheets represent the disclosure of the individual fund balance components (i.e., nonspendable, restricted, committed, assigned, and unassigned) and are considered an integral part of the 11G balance sheet since the DSS11G reports the fund balance in total, with no breakdown of the individual fund balance components. The first table on these worksheets are the sources used to disclose the individual fund balance components for the Notes to the Financial Statements in the ACFR. For government-wide reporting, the General Fund, Special Revenue Funds, Capital Projects Funds, and Permanent Funds must also segregate the total net position by restricted and unrestricted amounts. The second table on these worksheets are the sources used to disclose the detail restricted and unrestricted information.

The Fund Balance Reporting Policy should be used to determine the fund balance classifications on the worksheets. Each worksheet includes a link to this policy which can be found here:

[101.5 - Statewide Accounting Policy - Fund Balance Reporting | NC OSC](https://www.osc.nc.gov/1015-statewide-accounting-policy-fund-balance-reporting)

Worksheet 401 - The worksheet 401 should be completed at the detail GASB for the General Fund. Separate columns for GASB 1100, GASB 1102, etc.

Fund balances that are restricted, committed, or assigned for a specific use should be identified to the appropriate function/purpose using the drop-down boxes on the worksheets. The ‘Functional’ tab at the end of the NCAS package lists functions by FRU and GASB can be used as a guide. However, if there is a more specific purpose in the drop-down box that fits the fund balance classification, then select it. For example: If the Department of Public Safety has unspent grant funds (no offsetting liability), the amount to be restricted, committed, and/or assigned would be shown under “Public safety, corrections, and regulation”. If the Department of Public Safety has unspent funds for a capital project or repairs and renovations, then the amount to be restricted and/or committed would be shown under “Capital projects/repairs and renovations”. Contact your OSC analyst for additional guidance.

Worksheet 410 – There are no drop-down boxes to select the specific purpose for nonspendable, restricted, committed, or assigned fund balance. Enter the fund balance amount on the applicable purpose line, most likely, “Capital projects/repairs and renovations”. If an amount is entered on the “Other” line for restricted, committed, or assigned fund balance, list the specific purpose at the bottom of the worksheet in the designated section.

***For any restricted, committed, or assigned amounts identified on the 401-415 worksheets, the agency must complete the ACFR narrative and provide detail descriptions for each***. For example, if the Department of Public Safety (DPS) has equity related to unspent federal grants (no offsetting liability) that is reflected on the worksheet as restricted, then DPS would complete the ACFR Narrative and explain - The restriction in the amount of $\_\_\_\_ is related to the prison federal grant that restricts the usage of the funds. The explanation should identify the amount, funding source, why the amount is considered restricted, including the reference for general statutes, federal regulations, court orders, etc. where applicable.

If any adjustments to the worksheet are made during the ACFR compilation, OSC will provide copies to the agency. The agency should compare the prior year worksheet to the current year classification for reasonableness.

### Restricted and Unrestricted Net Position Worksheet (420)

This worksheet should be completed by business-type activities (BTAs) using the NCAS/DSS 11P and 53P reports for year-end reporting. This worksheet is not necessary and therefore not applicable for agencies using the offline financial statement for proprietary funds, worksheet 905, because the classifications for restricted and unrestricted net position are already reported in the net position section of that template. (However, offline agencies using the 905 may also use the guidance below for calculating the components of Net position.)

This worksheet represents the disclosure of the individual net position components and is considered an integral part of the 11P statement of net position since the standard DSS 11P reports net position in total, with no breakdown of the individual net position components. Worksheet 420 is the source used to disclose the individual net position components in the ACFR. Therefore, this worksheet must be complete, accurate and agree to the 11P net position when the package is turned in and should not be updated after the ACFR package is turned in unless authorized by OSC.

Refer to the policy on the OSC website for descriptions of each component of net position.

[NC OSC Policy 101.6 Net Position](https://www.osc.nc.gov/1016-statewide-accounting-policy-net-position)

For agencies using NCAS/DSS reports, the total equity must be analyzed and reported in the following three components: (1) Net investment in capital assets (2) restricted, by function/purpose, and (3) unrestricted.

1. **Net investment in capital assets** should be computed first and is calculated as follows:

Capital assets (depreciable plus nondepreciable)

Less: Accumulated Depreciation

Less: Outstanding balances of borrowings for capital asset acquisition, construction, or improvement (including face amount and premiums or discounts of bonds, mortgages, notes, leases and other borrowings)

Plus: Deferred outflows of resources attributable to capital asset acquisition, construction, or improvement

Less: Deferred inflows of resources attributable to either capital asset acquisition, construction, or improvement or to capital asset related debt

Equals: Net Investment in Capital Assets

1. **Restricted Net Position** should be computed next as follows:

Restricted Assets

Less: Liabilities related to restricted assets (including those to be liquidated with restricted assets and/or those arising from the same resource flow that results in restricted assets)

Less: Deferred inflows of resources related to restricted assets

Equals: Restricted Net Position

\*\*\*Note that deferred outflows of resources are not included in restricted net position.

Net position that is restricted should be identified to the appropriate function/purpose using the drop-down box on the worksheet. The ‘Functional’ tab at the end of the NCAS package lists functions by FRU and GASB can be used as a guide. Contact your OSC analyst for additional guidance.

1. **Unrestricted Net Position** is the residual amount that should be calculated last as follows:

Total Net position

Less: Net Investment in Capital Assets

Less: Restricted Net Position

Equals: Unrestricted Net Position

In completing worksheet 420, each agency should ensure that the total net position agrees with the total net position reported on the 11P and the net investment in capital assets balance should not exceed the balance for total capital assets, net. If the agency has not issued debt and does not have any deferred outflows or inflows attributable to capital asset acquisition, construction, or improvement; or to capital asset related debt, then the net investment in capital assets balance should equal the balance for total capital assets, net (which is the sum of capital assets-nondepreciable plus capital assets-depreciable, net).

### Restatements, Part 1 of 2 for fund equity (430G, 430BTA and 430F)

Separately report restatements due to GASB reclassifications (OSC directed), capital assets prior period adjustments, long term debt prior period adjustments and other restatements (error corrections, etc.). Total GASB reclassifications, for agencies as a whole (430G’s, 430BTA’s and 430F’s), should net to zero. Enter amount as positive if fund equity is increasing and enter amount as negative if fund equity is decreasing as a result of the restatement.

**430G governmental type funds**: Restatement amounts for capital assets should be reported in the Capital Assets GASB 5100 column and should tie back to the Prior Year Adjustments column on worksheets 202/203. Restatement amounts reported in the General Long-Term Debt GASB 5200 column should tie back to the Prior Year Adjustments column on worksheet 305. If there is a change between the prior year ending FUND BALANCE – JUNE 30 and the current year beginning FUND BALANCE – JULY 1, on the DSS 52G, the difference should agree to the GASB fund balance reclassification. For any restatements reported in the “Other” column on the 430G, the agency should have recorded a restatement to Account

320001 in NCAS. The total restatements in the “Other” column should agree to Account 320001 on the DSS 52G. In addition, for any amounts reported on the 430G “Other” column, the 431G should be completed for each applicable caption.

Please note, with the implementation of GASB 87 in FY 2022, restated right to use assets should be reported in the Capital Assets GASB 5100 column on the 430G and agree to the prior year adjustments for the right to use assets reported on the 203 worksheet (201/210 worksheets for capital assets not recorded in the Fixed Asset System). Restated lease liabilities should be reported in the General Long-Term Debt GASB 5200 column on the 430G and agree to the prior year adjustments for lease liabilities reported on the 305 worksheet.

Comment: Restatements related to leases that were previously reported as operating leases prior to the implementation of GASB 87, should net to zero. Because the restated right to use assets should agree to the restated lease liability for these leases, the right to use asset restatements and the lease liability restatement will offset each other, and fund balance should not be impacted.

**430BTA business type funds**: Restatement amounts in the Capital Transactions column should agree to the sum of the Prior Year Adjustments columns on worksheets 201 and 210. Restatement amounts in the Long-Term Transactions column should agree to the total of the Prior Year Adjustments column on worksheet 310. If there is a difference between the prior year’s ending NET POSITION – JUNE 30 and the current year’s beginning NET POSITION – JULY 1 on the DSS 53P report, the difference should agree to any GASB reclassifications. The calculated Total restatement does not include the GASB Reclassifications column. The calculated Total Restatement should agree to the sum of the total Capital Transactions column, the total Long-Term/Short Term Transactions column, and the total Other column on worksheet 430BTA. The calculated Total Restatement should also agree to the Restatement caption (Account 330001) on the DSS 53P report or line 244 on worksheet 905 for universities.

Please note, with the implementation of GASB 87 in FY 2022, restated right to use assets should be reported in the Capital Transactions column on the 430BTA and agree to the restated right to use assets reported on the 201/210 worksheets. Restated lease liabilities should be reported in the Long-term/Short-term Transactions column on the 430BTA and agree to the prior year adjustments for lease liabilities reported on the 310 worksheet.

Comment: Restatements related to leases that were previously reported as operating leases prior to the implementation of GASB 87, should net to zero. Because the restated right to use assets should agree to the restated lease liability for these leases, the right to use asset restatements and the lease liability restatement will offset each other, and net position should not be impacted.

**430F fiduciary activities type funds:** The change between the prior year NET POSITION – June 30 and the current year NET POSITION – BEGINNING OF YEAR on the DSS reports (54F) should equal the total reclassifications recorded in the GASB Reclassification column on the 430F worksheet. All restatements recorded in NCAS in account 330001 for your fiduciary funds should equal the total restatements recorded in the Other column on the 430F worksheet. Note: there is no Fund Equity Restatement, Part 2 (431) for fiduciary activities.

**Fund Equity Restatement, Part 2 (431G and 431BTA)**

**This worksheet is NA for component units, fiduciary funds, GASB fund reclassifications between governmental funds and prior period adjustments in GASB 5100 Capital Assets and GASB 5200 Long Term Liabilities.**

**Prepare a separate 431 for each GASB with a restatement. Report the restatements as they would have impacted the 6/30/21 financial statements.** **The information from this worksheet is used to complete the tables found in the section “Financial Analysis of the State as a Whole” within the MD&A.**

**431G governmental funds:** Key only the 6/30/21 balances for statement captions impacted by the restatement as they appear on the DSS reports. Show increases as positives and decreases as negatives in the Restatements column. Balance sheet and operating statement changes are calculated based on the caption type and sign. For example, an increase to a liability should be entered as positive amount on the worksheet but will calculate to decrease fund equity.

For balance sheet caption items that are impacted by the restatement, report the balance(s) as originally reported at 6-30-2021 and record the changes to assets/deferred outflows and/or liabilities/deferred inflows as a result of the restatement. In addition, record the impact of the restatement to the appropriate net position caption (net investment in capital assets, restricted or unrestricted).

For expenditure statement captions show restatement to program and/or general revenues, functional expenditures, transfers, contributions to permanent funds, or direct adjustments to beginning net position. Do not post restatements to an operating statement caption unless the restatement is directly related to the prior year (FY 2021). If the restatement is related to earlier years (FY2020 or earlier), post the restatement directly to the **“Beginning Fund Equity (restated)”** caption, which is at the bottom of the 431G.

In the Restatements column the *Balance Sheet, net* line must agree with the *Operating Statement, net* line. The *Balance Sheet, net* and the *Operating Statement, net* in the Restatements column **must** equal the amount reported in the restatement account 320001 plus any GASB fund reclass (change between prior

year 6/30 ending fund balance and current year 7/1 beginning fund balance). Do not complete the 431G for GASB reclassifications ***between governmental funds***. The net impact will be zero.

**431BTA business type funds:** Key only the 6/30/21 balances for statement captions impacted by the restatement as they appear on the DSS reports. Enter restatement increases as positives and decreases as negatives in the Restatements column. Balance sheet and operating statement changes are calculated based on the caption type and sign. For example, an increase to a liability should be entered as a positive amount on the worksheet but will calculate to decrease net position.

For balance sheet caption items that are impacted by the restatement, report the balance(s) as originally reported at 6-30-2021 and record the changes to assets/deferred outflows and/or liabilities/deferred inflows as a result of the restatement. In addition, record the impact of the restatement to the appropriate net position caption (net investment in capital assets, restricted or unrestricted).

For expenditure statement captions, record restatement(s) to program and/or general revenues, functional expenditures, transfers, or direct adjustments to beginning net position. Do not post restatements at an operating statement caption unless the restatement is directly related to the prior year (FY 2021). If the restatement is related to earlier years (FY2020 or earlier), post the restatement directly to the **“Net Position, beginning restated”** line.

In the Restatements column the *Balance Sheet, net* line must agree with the *Operating Statement, net* line. The *Balance Sheet, net* and the *Operating Statement, net* in the Restatements column **must** equal the amount reported in the restatement account 330001 plus any GASB fund reclass (change between prior year 6/30 ending fund balance and current year 7/1 beginning fund balance).

**Worksheets 501-565**

**Agency Contact Information**

Refer to the ‘All Agencies’ tab in the ACFR package workbook to obtain contact information for confirming inter-agency receivables and payables.

**Component Units**

The following agencies are considered component units of the State of North Carolina for the 2022 ACFR. Also refer to the Agencies list in the ACFR Excel workbook for names of colleges and universities and the comprehensive list all agencies in the State of North Carolina reporting entity.

Agency GASB Name

0A 2611 N.C. Housing Finance Agency

07 2629 Div. of State Health Plan, Dept of State Treasurer

48 263X UNC Hospitals (part of UNC System – see Agencies list)

48L 2632 UNC Hospitals LITF (part of UNC System – see Agencies list)

48E 2635 UNC Hospitals Enterprise Fund (part of UNC System – see Agencies list)

48R 2637 Rex Healthcare (part of UNC System – see Agencies list)

48C 2638 Chatham Hospital (part of UNC System – see Agencies list)

48T 2639 UNC Physicians Network (part of UNC System – see Agencies list)

48RH 263X Rockingham Health Care (part of UNC System – see Agencies list)

48CW 263X Caldwell Memorial Hospital (part of UNC System – see Agencies list)

87 4XXX NC School of Science & Math (part of UNC System)

Z2 2618 N.C. Biotechnology Center

Z3 2615 N.C. Global TransPark Authority

Z7 2621 N.C. Partnership for Children

ZA 2612 State Ports Authority

ZB 2620 State Education Assistance Authority

ZG 2626 Centennial Authority

ZH 2627 North Carolina Railroad Company

ZI 2640 The Golden LEAF, Inc.

ZL 4XXX Gateway Research Park (Part of UNC System)

ZM 2644 Economic Development Partnership of NC

UXX 4XXX UNC System (16 universities and UNC System Office – see Agencies list)

CX-DX 4XXX Community Colleges (58 colleges – see Agencies list)

**Refer to the OSC website for a list of detailed NCAS accounts for interfund receivables and payables.**

**Interfund Loans**

If any balances reported on worksheets 501 through 530 represent interfund loans, submit an explanation of the loan. An interfund loan is an amount provided between funds and blended component units of the primary government with a requirement for repayment. The portion of an advance that is due within one year is recorded as an interfund loan.

Schedule Of Intra-Agency Receivables And Payables (501)

This worksheet must be completed if the following NCAS accounts are used:

114310-114321 General Government Intra-Agency Receivables

212310-212321 General Government Intra-Agency Payables

Receivables and Payables must equal. If you record an intra-agency receivable, then you must record the corresponding intra-agency payable. This worksheet will assist the agency in identifying any out-of-balances which must be corrected before completion of the accrual process.

Please note that all amounts must tie to the DSS 11G/11P/11F.

**There is no threshold limit applicable to intra-agency receivables and payables (worksheet 501).**

**In general, a threshold of $1,000,000 applies to worksheets 505 through 530; however, there are exceptions to this threshold. Therefore, be sure to read all of the instructions before completing a worksheet.** The $1,000,000 threshold should be applied in aggregate **per Agency and per GASB**. Balances equal to or in excess of the threshold should be recorded as interfund balances in the appropriate account. Balances below the threshold should be recorded as Accounts Receivable or Accounts Payable.

**There is an exception for the due to and due from between agencies or component units and the Department of the State Treasurer (Agency 07) for retirement related accruals. There is also an exception for Coronavirus Funds- see information in red for worksheets 505-530 below.**

The $1,000,000 threshold does apply to payables to the following funds:

Payee Fund Agency GASB

Motor Fleet Management 13 2714

State Computer Center 41 2730

State Telecommunications 41 2731

**Schedules Of Inter-Agency Receivables And Payables (505-510)**

**FY2022:** For Worksheets 505 and 510, there is NO threshold for inter-agency receivables and payables related to Coronavirus Funds. In the Comments section of each worksheet, all entities should indicate whether the inter-agency receivable or payable relates to (1) CARES Act Coronavirus Relief Fund (CRF) money, (2) American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds (SLFRF) money, OR (3) other coronavirus funds.

These worksheets must be completed for each GASB in which the following NCAS accounts are used:

114410-114421 General Government Inter-Agency Receivables

212410-212421 General Government Inter-Agency Payables

**Schedules Of Due From And To Primary Government (515-520)**

**FY2022:** For Worksheets 515 and 520, there is NO threshold for amounts due from/due to the Primary Government related to Coronavirus Funds. In the Comments section of this worksheet, component units should indicate whether the Due From/Due to Primary Government relates to (1) CARES Act Coronavirus Relief Fund (CRF) money, (2) American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds money, OR (3) other coronavirus funds.

These worksheets must be completed for each GASB in which the following NCAS accounts are used:

114600 Due From Primary Government Agencies

124100 Restricted Due From Primary Government

212500 Due To Primary Government Agencies

**These accounts should only be used by component units identified on the list above.**

**The threshold limit does not apply to the Restricted due from Prim Gov section.**

Schedules Of Due From /To State Of NC Component Units (525-530)

**FY2022:** For Worksheets 525 and 530, there is NO threshold for amounts due from/due to State of NC component units related to Coronavirus Funds. In the Comments section of this worksheet, entities should indicate whether the Due from/Due to State of NC Component Units relates to (1) CARES Act Coronavirus Relief Fund (CRF) money, (2) American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds (SLFRF) money, OR (3) other coronavirus funds.

These worksheets must be completed for each GASB in which the following NCAS accounts are used:

114700 Due from State of NC Component Units

124200 Restricted Due From State of NC Component Units

212600 Due to State of NC Component Units

**These accounts can be used by component units of the State of NC and primary government agencies when there is an inter-entity relationship with other component units of the State of NC.**

In the first column of the above worksheets 505-530, indicate the NCAS account number to which the balance applies.

In the next two columns enter the Agency and applicable GASB numbers of the agency with which the interfund balance is held. Universities are GASB 4XXX for all transactions.

The balances listed in the fourth column must agree to the appropriate DSS 11 statement/ WS 905 (universities) by NCAS account number.

Enter contact information and confirmation date in the fifth, sixth, and seventh columns. All agencies must contact (via email preferably) someone at the agency with which they have an interfund balance to verify the agency number, GASB number, and amount of each balance. Confirmation and agreement of the interfund balances between the two agencies involved prior to submission of the ACFR package is critical. Please save/file supporting documentation for further inquiries.

Schedule of Advances (535)

Advances are amounts owed, other than charges for goods and services rendered, to a particular fund by another fund in the government reporting entity and that are not due within one year. The portion of an advance that is due within one year is recorded as an interfund loan. The coronavirus funds are an exception to this general rule. Coronavirus funds advanced to entities outside of the State’s financial reporting entity should be recorded as an advance (account 114501) if eligibility requirements are not met at year-end.

This worksheet must be completed for each GASB in which the following NCAS accounts are used:

114501 Advances to Outside Entities  **(See instructions below)**

124310-124319 Advances To Other Funds

124600 Advances To Primary Government Agencies

124700 Advances To Component Units

222310-222319 Advances From Other Funds

222500 Advances From Primary Government Agencies

222600 Advances From Component Units

Provide a detailed explanation of the advances in the area provided on the worksheet.  **In FY2022 (as was also required in prior fiscal years)**, disclosure is also required for Advances to Entities Outside the State’s Financial Reporting Entity due to funds advanced for the coronavirus. Universities with balances in Account 114501 (refer to the 905) are also required to disclose those balances on this worksheet. Universities are not required to disclose other balances on this worksheet, consistent with prior years. Advances to Outside Entities should be identified separately by including a description of the transaction in the “Detailed Explanation” lines. In the “Detailed Explanation” line indicate if the advance to outside entities is for (1) CARES Act Coronavirus Relief Funds (CRF), (2) American Rescue Plan Act (ARPA) State Fiscal Recovery Funds (SFRF), OR (3) other coronavirus funds separately. OSC must be able to identify the CARES Coronavirus Relief Funds and ARPA State Fiscal Recovery Funds separately from other coronavirus funds. The payee agency number, payee GASB number, and payee contact information can be left blank.

Transfers Overview (Worksheets 540 – 560)

Interfund transfers are flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Statewide operating transfers are booked in accounts 4380AA/4381AA/4384AA/438CAA/438FAA/438SAA/**438PAA** for transfers in and in accounts 5380AA/5381AA/5384AA/538CAA/538FAA/**538PAA** for transfers out. **Accounts 538030 and 438030 are NOT considered transfers and should NOT be booked as transfers in NCAS or on the 540-560 worksheets.** These accounts are used for inter-agency (between agencies) and intra-agency (within the agency) transfers.

Please review the following Transfers Accounts – Their Purpose and Proper Use document and the Intragovernmental Transactions and State Grant Transactions Policy for additional information on transfers:

[Transfer Accounts – Purpose and Use](https://files.nc.gov/ncosc/documents/year-end/Transfer%20Accounts%20-%20Their%20Purpose%20and%20Proper%20Use.pdf)

Operating transfers in and operating transfers out within an agency (intra-agency) must equal. Additionally, all intra-agency operating transfers that are between the same company and same GASB ***must be eliminated***. It is the agency’s responsibility to ensure transfers are recorded correctly and all eliminations are made by your ACFR package due date, with a June 30th effective date.

Intra-agency operating transfers within the same GASB and same agency that cross companies will have to be eliminated at the ACFR statewide level, by OSC. Since these transfers cross companies the agency cannot eliminate them in the system.

**Agencies must reconcile their transfers at the agency level.**

**Schedule of Intra-Agency Operating Transfers (540)**

This worksheet must be completed for each GASB in which the following NCAS accounts are used for intra-agency operating transfers:

4381AA Agency Operating Transfer In

5381AA Agency Operating Transfer Out

Intra-agency operating transfers in and intra-agency operating transfer out must equal. If you record an intra-agency transfer in then you must record the corresponding intra-agency transfer out. This worksheet will assist the agency in identifying any out-of-balances which must be corrected before completion of the accrual process.

Total amounts on schedule may not tie to the DSS 52G/53P because these accounts are also used to record inter-agency operating transfers.

For all accounts with a balance that exceeds $4 million, explain the general purpose of the transfer, for example: Fines and Forfeitures are collected in one fund and required to be transferred to another fund.

**There is no threshold limit applicable to intra-agency operating transfers.**

**Schedule of Agency Inter-Company Operating Transfers to be Eliminated at ACFR Statewide Level (545)**

This worksheet is to be used to identify the operating transfers within the same fund type and same agency but crosses companies. These operating transfers should be eliminated, but since these transfers cross companies the agency cannot eliminate in the system. Therefore, this worksheet will be used by OSC to prepare the ACFR statewide level off-line worksheet elimination entries.

For example: Company 1604, GASB 1400, transfers funds to Company 1614 GASB 1400. These are intra-fund transfers that cross companies and should be eliminated. However, these cannot be eliminated through the system since they cross companies. Instead the agency would include these on the worksheet.

**Schedule of Inter-Agency Operating Transfers In and Out (550 & 555)**

These worksheets must be completed for each GASB in which the following NCAS accounts are used for inter- agency operating transfers:

4381AA Agency Operating Transfer In

5381AA Agency Operating Transfer Out

4380AA Statewide Operating Transfers In

5380AA Statewide Operating Transfers Out

438FAA Hurricane Florence Disaster Transfer

538FAA Hurricane Florence Disaster Transfer Out (\*DPS Only)

438CAA Coronavirus Relief Fund Transfers In

438SAA SCIF Transfers In

538CAA Coronavirus Relief Fund Transfers Out

438PAA ARPA SFRF Transfer In **(New FY 2022)**

538PAA ARPA SFRF Transfer Out **(New FY 2022)**

The columns titled **Agency No./Budget Code Transferred From and Agency No./Budget Code Transferred To** are requesting the agency number and budget code of the agency from/to which moneys are being transferred.

The columns titled **GASB No. Transferred From and GASB No. Transferred To** are requesting the GASB number of the agency from/to which moneys are being transferred.

(Reminder for FY 2022 – Was New FY19): The three columns titled **Status** are requesting whether the agency has obtained agreement from the other agency in the transfer transaction regarding transfer amount and accounting.

These worksheets will assist the agency in verifying that transactions recorded as transfers are properly classified, and in identifying areas where more specific account titles are needed. These will also identify areas where transactions need to be recorded to separate account numbers.

Total amounts on schedule may not tie to the 52G/53P because these accounts are also used to record intra-agency operating transfers.

For all accounts with a balance that exceeds $4 million, explain the general purpose of the transfer, example: Fines and forfeitures are collected in one fund and required to be transferred to another fund.

**There is no limit applicable to inter-agency operating transfers.**

**Schedule of Agency Nonroutine Transfers (560)**

During the year an agency will make transfers that affect fund balance/equity, which are recorded as Agency Nonroutine Transfers. These transfers can be made between various fund types.

Agency Nonroutine Transfers are nonrecurring transfers of fund balance/equity between funds - for example, transfers of residual balances of discontinued funds to the General Fund or to a debt service fund, or the transfer of a specific program from one agency to another agency.

Normally, an agency nonroutine transfer out (in a governmental fund's operating statement) is offset by an agency nonroutine transfer in.

In governmental funds, agency nonroutine transfers of fund equity will not occur if the transfer is going to or coming from an agency fund. These transfers will be reflected as an operating transfer in the governmental fund. All governmental fund fixed assets are reported in the account group.

Example: There is a transfer out from a special revenue fund and the transfer in goes to an agency fund. This should be shown as an operating expenditure in the special revenue fund, not as an agency nonroutine transfer out.

NOTE: Each amount recorded in NCAS Account 4384AA for agency nonroutine transfers in and NCAS Account 5384AA for agency nonroutine transfers out must be identified on this worksheet.

**Schedule of Interinstitutional Transfers (universities only) (565)**

This worksheet must be completed if the following NCAS accounts are used:

538700 and/or 438700 Interinstitutional Transfers

In the second column, identify the university from/to which the monies were transferred.

In the third and fourth columns, provide a brief description and the amount of the transfer.

In the final three columns, indicate whether you and the other party (i.e. payor/payee) have agreed on the amount of the transfer. **You must contact each payor/payee and confirm that you both agree on the amount of the transfer and on its classification as an interinstitutional transfer.** This step is important because total interinstitutional transfers among the UNC System must net to zero at year end. If they do not, you will receive a call from an OSC Analyst.

This worksheet will also assist the university in identifying transfers that are not interinstitutional transfers. If a transaction is not an interinstitutional transfer, it must be reclassified. Correcting entries must be made before completion of the accrual process.

Please note that the total per the worksheet must tie to total Interinstitutional Transfers/University Transfers per the 53P/905/operating statement.

**There is no threshold limit applicable to interinstitutional transfers.**

### Receivables Worksheet (570)

Using the DSS 11G, identify any receivable caption that is $1,000,000 or greater and record on the 570 worksheet the amount not expected to be repaid within one year. In addition, a description for each receivable caption not expected to be collected within one year should be provided. (Include all accounts receivable, notes receivable, loans receivable, etc.)

A threshold of $1,000,000 per receivable statement caption applies to Worksheet 570. This worksheet only applies to governmental funds (NA for proprietary funds and component units).

Analysis of Unavailable Revenues (620)

**This worksheet is needed to prepare the government wide financial statements.**

Worksheet should be completed for amounts recorded in account **218120** Unavailable Revenues.

**Function:** State agencies must select a function in the drop-down box. The function selected relates to the revenue statement caption. If a tax revenue account or tobacco settlement account (General Revenues) is selected as the revenue statement caption, select “No function”. If other revenue accounts are selected such as, Fees, Licenses and Fines or Sales and Services (program revenues), select the appropriate function, such as “General Government”, “Transportation”, etc. If an agency needs to select a Taxes account (general revenues) and a program revenue account(s), such as Fees, Licenses and Fines or Sales and Services, requiring more than one function to be selected, i.e., “No function” and “Transportation”, then the agency should select “Transportation”. The agency also has the option to create a second 620 WS and provide the data for one function on one tab and the other function on the second tab.

The revenue statement caption column information is the revenue statement caption on the DSS 52G. For Taxes statement caption, however, the amounts should be detailed by type of tax (Individual, corporate, etc.). Select the revenue statement caption from the drop-down box. If the revenue statement caption needed is not listed, contact your OSC analyst.

The Beginning Balance July 1, 2021 must agree with the balance in account 218120 per the 6/30/21 DSS 11G.

The Balance June 30, 2022 must agree with the balance in account 218120 per the 6/30/22 DSS 11G.

The Prior Year Unavailable Revenue Earned in Current Year plus the Write-Offs/Uncollectible Amount columns cannot exceed the Beginning Balance July 1, column.

Analytical Review (625)

**SIGNIFICANT INCREASES/DECREASES** — For the purpose of this worksheet a significant change in a report caption will be defined to be changes (increases/decreases) as follows:

**Primary Government** Greater than or equal to **15%**, **AND** a threshold amount greater than or equal to **$15,000,000**

**Universities and** Greater than or equal to **15%**, **AND** a threshold amount greater than or equal **Major Component** to **$10,000,000** (except **$30,000,000** for North Carolina State University, and

**Units $40,000,000** for UNC Chapel Hill and the UNC Health Care System.)

**Colleges and**  Greater than or equal to **15%**, **AND** a threshold amount greater than or equal

**Nonmajor**  to **$2,000,000** (For colleges, this is built into the College proforma spreadsheet)

**Component Units**

**Primary (general) government agencies** should analyze SIGNIFICANT CHANGES from the prior year at the financial statement report caption level, for each **GASB fund number (General Fund - 11XX level), Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, and Fiduciary Funds**.

**University and community college** analysis of report captions should be done ***only once*** at the “***total funds***” level. Universities and community colleges report in one column as a business-type activity.

**Instructions for NCAS agencies using DSS Comp Reports:**

Open the Comp 11G/11P/11F and Comp 52G/53P/54F.

Double click on “layer” which expands the layers to the GASB number level. At the GASB number level apply significant level threshold to statement caption and provide explanation for differences. At this point it may help to drill down to account level and explain the account which contributes to the difference.

All significant changes to assets, liabilities, revenues and other financing sources, and expenditures/expenses and other uses, should be analyzed. ***Variances for changes in fund balance, restatements or net position do not require explanation***. Indicate the ***REASON*** for the change in the description field. Attach additional information as necessary.

**Specific reasons** for significant fluctuations should be described in detail in terms of:

**economic changes;**

**legal influences or changes;**

**policy changes;**

**legislative changes;**

**demographic shifts or trends;**

**environmental impacts (including weather); and**

**administrative, management, or accounting changes**

Your ***REASONS*** should present ***ADDITIONAL INFORMATION*** that would otherwise not be available, or obvious, to the local, state, and national ***USERS*** of your financial information.

The Analytical Review worksheet should disclose ***unusual and significant*** items.

Each agency or institution that issues separate audited financial statements will need to include Management Discussion & Analysis narrative, with charts and tables, in their separately issued financial statements.

### Segment Worksheet (635)

Governments that report enterprise funds or that use enterprise fund accounting and reporting standards are required to disclose certain information about each “reportable segment” in the notes to the financial statements.

**Reportable Segments**

For purposes of this disclosure, a “reportable segment” is an ***identifiable*** activity (or grouping of activities) that:

Is reported as or within an enterprise fund or another stand-alone entity for which one or more bonds or other debt instruments (such as certificates of participation) are outstanding,

Has a revenue stream pledged in support of that debt, and

Is subject to reporting requirements by an ***external*** party requiring separate accounting for the activity’s **assets, liabilities, revenues, expenses, gains and losses** (e.g., such as those commonly set forth in bond indentures).

An activity within an enterprise fund is identifiable if it has a specific revenue stream pledged in support for the debt and has related expenses, gains and losses, assets, and liabilities that are required to be

accounted for separately. Segment disclosures are not required for an activity whose only outstanding debt is conduit debt for which the government has no obligation beyond the resources provided by related leases or loans. In addition, segment reporting is not required when an individual fund both is a segment and is reported as a major fund.

**Disclosure**

Disclosure requirements for each segment should be met by identifying the types of goods and services provided and by presenting condensed financial information in the notes.

**Questions from Implementation Guides**

***Q&A Statement No. 34***

***Question 236***

**Q—A public university has fifteen residence halls on its campus, ten of which have individual bonded debt secured by the room fee revenues of the specific dorm. Is the “identifiable activity” the entire group of fifteen residence halls, or only those with revenue bonds outstanding?**

A—Paragraph 122 requires governments to disclose information about “segments” of enterprise funds in the notes to financial statements. One essential characteristic of a segment is that it is an “identifiable activity.” The “identifiable activity” is the source of the pledged revenues. If the bond indenture specified that the pledged revenues were the fees from all the dorms, the dorm system would be the identifiable activity. In this case, however, because each dorm’s debt is secured by its own revenues, segment disclosures should be made for each of the ten residence halls that meet all the criteria in paragraph 122. The primary purpose of the disclosure required by paragraph 122 is to provide information about “coverage” of pledged revenues, not to disaggregate all of the operating results of enterprise funds.

***Q&A Statement No. 34 and Related Pronouncements (2nd Q&A)***

***Question 115***

**Q—A city operates under an internal policy that requires separate accounting for assets, liabilities, revenues, and expenses related to any activity that raises revenues pledged as security for debt. Is the city required to disclose segment information relative to those activities?**

A—No. Paragraph 17 of Statement 37 clarifies that the separate accounting requirement should be imposed by an *external* party. The city should not include its “segment-like” information in the required segment disclosure, but may present the information in a separate note or as supplementary information without referring to the condensed financial information as “segment” information.

***Q&A Statement No. 34 and Related Pronouncements (2nd Q&A)***

***Question 127***

**Q—A state university’s food service facilities were financed by revenue bonds. The bond indenture includes a requirement to provide to the trustee a financial statement showing the coverage of the pledged revenues to the operating expenses of the facilities. Is the university required to make the segment disclosures set forth in paragraph 122 of statement 34?**

A—No. Paragraph 122, as amended by Statement 37, states that an activity is a segment if its revenues, expenses, gains and losses, and assets and liabilities are required to be accounted for separately. Therefore, because the requirement in this case is limited to only revenues and expenses, the university would not be required to make segment disclosures for its food service operations.

**Tax Abatement Worksheet 640**

GASB Statement 77 establishes accounting and financial reporting standards for tax abatement disclosures. This worksheet only applies to the Department of Commerce.

The following information is required to be disclosed for each Tax Abatement Program of the State and should be reported on Worksheet 640 in the appropriate space. The paragraph reference within GASB Codification on Tax Abatements is listed beside each disclosure requirement.

* Program Name [GASB Codification T10 .105a.(1)]
* Specific Tax Abated [GASB Codification T10 .105a.(2)]
* Authority for the Abatement [GASB Codification T10 .105a(3)]
* Gross dollar amount of taxes abated during the fiscal year on an accrual basis. [GASB Codification T10 .105b.]
* General Statute or Authority preventing details from being disclosed. [GASB Codification T10 .105f.]

The following information is required to be disclosed for each Tax Abatement Program of the State and should be reported on the Narrative for Worksheet 640.

* Program Purpose [GASB Codification T10 .105a.(1)]
* Eligibility Criteria for the agreement [GASB Codification T10 .105a.(4)]
* Abatement mechanism [GASB Codification T10 .105a.(5)]
* Recapture Provisions [GASB Codification T10 .105a.(6)]
* Recipient Commitments [GASB Codification T10 .105a.(7)]
* Commitments made by the State, other than to abate taxes, as part of the agreement. [GASB Codification T10 .105d.]
* Description of the general nature of the tax information omitted. [GASB Codification T10 .105f.]
* Amounts that are received or are receivable from other governments in association with forgone revenue including the names of the governments and the authority under which the programs were or will be paid. [GASB Codification T10 .105c.]

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###### Deposits and Investments – (705-765); Derivatives (755)

Note: Each deposit and investment worksheet should be completed for all GASB funds.

**Worksheet 705 — Cash And Cash Equivalents In Banks Outside The State Treasurer—Custodial Credit Risk - Deposits**

Insert the totals for **Total Cash by Bank** in column (A) on worksheet 705. The totals by bank for *Demand Accounts* (noninterest bearing check, interest bearing check, and cash with fiscal agent) and *Time Accounts* (savings accounts, NOW accounts, money market accounts, and pooled cash accounts) must be added together before entering them on worksheet 705.

Deposits subject to custodial credit risk should be disclosed. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are

* Uncollateralized (an uncollateralized deposit does not have securities pledged to the depositor-government, column B),
* Collateralized with securities held by the pledging financial institution (column C), or
* Collateralized with securities held by the pledging financial institution’s trust department or agent but not in the depositor-government’s name (column D).

All other deposits not subject to custodial credit risk disclosure should be reported in column (E).

**For each financial institution that maintains deposits of the entity, the Federal Deposit Insurance Corporation (FDIC) insures all noninterest and interest bearing checking accounts combined up to $250,000. For savings accounts and other time deposits combined, FDIC insures them up to $250,000.** When an entity holds deposits in a fiduciary capacity (*examples:* patient personal funds, inmate funds, and Clerk of Court institutional funds), FDIC insures each individual's deposit up to $250,000 if the entity's records can identify those deposits of each individual. Deposits held by an insured institution in a trust department or in some other fiduciary capacity **(such as a fiscal agent)** will be insured for up to $250,000 for each depositor **and** will be insured separately from any other deposits of the depositor at the same institution. **(NOTE: The FDIC insurance coverage is for deposits per financial institution, not for deposits per account.)**

**According to the North Carolina Administrative Code - Title 20, Chapter 7—The only public deposits which can legally be collateralized by financial institutions are those of the State Treasurer, Medical Faculty Practice Plans (MFPP), and Dental Faculty Practice Plans (DFPP). The deposits of the Clerks of the Superior Courts are required by G.S. 7A-112 to be collateralized by the financial institutions.**

Total the amounts in columns (B), (C), (D), and (E) for each financial institution and show the totals in column (F). The totals in column (F) should agree to the amounts in column (A).

**Worksheet 710 — Investments Held Outside The State Treasurer—Custodial Credit Risk - Investments**

For all GASB Funds, submit one 710 reporting all investments, whether current, noncurrent, or restricted, and including any investments held by a fiscal agent and endowment investments.

Insert the **carrying values** for each type of investment from the appropriate balance sheet account **plus** the allowance account (112150, 112151, 112152, 122150, 122151, 122152, 122153) in **column (A)**. Generally, most investments will be reported at fair value (cost plus allowance) in accordance with GASB 31, as amended.

**For “Other” Investment Types:** Choose the “other” type investment class from the dropdown boxes provided. Use the dropdown boxes for Other A and Other B for investments that should be categorized, and Other C – F for investments that are not categorized. “Other” investment lines should ONLY be used when there are no investment types already provided on the worksheet. Note: an investment type MUST be selected if an amount is listed on these rows. For “Other” investments that should be reported at NAV on Worksheet 755, choose the investment category with ‘\_NAV’ in the dropdown box if there are multiple options for the same investment type (e.g. Collection and Mineral Rights\_NAV). For investments that should be reported at Fair Value on Worksheet 755, choose the investment category with ‘\_FV’ in the dropdown box if there are multiple options for the same investment type (e.g. Collection and Mineral Rights\_FV). If you have an “Other” investment that is not a choice in the dropdown box, please contact your OSC Analyst.

The total investments reported on 710 must agree to all investments reported on the DSS Balance Sheet/Statement of Net Position. **Exception for Universities: Any differences must be equal to GASB 39 foundation investments and/or External investment pools.** If the university operates an external investment pool, all investments of this pool will be reported on the 710 worksheet; however, the external portion of this investment pool will not be reported in the universities financial statements on the 905 worksheet. These investments will be reported in a fiduciary fund (investment trust fund or custodial fund) of the university. For fiduciary funds, other than the external portion of external investment pools, the investments will not be reported on the 710 package worksheet and should equal the 905.

For the investments, categorize the **Level of Risk** for each investment’s carrying value in **columns (B), (C), and (D)**.

**For Universities, the amount in the UNC Investment Fund investment type should be the amount in the “other” column on the UNC Investment Fund confirmation. This is the “gross asset” amount, excluding the payable. Do not use the “Net Asset” column; this is the net amount.**

**Levels of Risk**

Investments subject to custodial credit risk should be disclosed. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either:

* The counterparty or
* The counterparty’s trust department or agent but not in the government’s name.

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Securities underlying reverse repurchase agreements are not exposed to custodial credit risk because they are held by the buyer-lender. The term securities include securities underlying repurchase agreements and investment securities.

All other investments not subject to custodial credit risk disclosure should be reported in column (D).

**Worksheet 715 — Investments Held Outside The State Treasurer—Custodial Credit Risk - Deposits**

List each financial institution and the respective unreconciled bank balance for certificates of deposit and bank investment contracts for the total of all GASB funds in **column (A)**.

Deposits subject to custodial credit risk should be disclosed. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are

* Uncollateralized (an uncollateralized deposit does not have securities pledged to the depositor-government, column B),
* Collateralized with securities held by the pledging financial institution (column C), or
* Collateralized with securities held by the pledging financial institution’s trust department or agent but not in the depositor-government’s name (column D).

All other deposits not subject to custodial credit risk disclosure should be reported in column (E).

For each financial institution that maintains deposits of the entity, FDIC insures savings accounts and other time deposits such as certificates of deposit and bank investment contracts combined up to $250,000. When an entity holds deposits in a fiduciary capacity (*examples:* patient personal funds, inmate funds, and Clerk of Court institutional funds), FDIC insures each individual's deposit up to $250,000 if the entity's records can identify those deposits of each individual. **(NOTE: The FDIC insurance coverage is for deposits per financial institution, not for deposits per account.)**

**According to the North Carolina Administrative Code - Title 20, Chapter 7—The only public deposits which can legally be collateralized by financial institutions are those of the State Treasurer, Medical Faculty Practice Plans (MFPP), and Dental Faculty Practice Plans (DFPP). The deposits of the Clerks of the Superior Courts are required by G.S. 7A-112 to be collateralized by the financial institutions.**

Total the amounts in columns (B), (C), (D), and (E) and show the totals in column (F). The totals in column (F) should agree to the amounts in column (A).

Total the amounts on page 705 (Time and Demand Accounts) and 715 (Certificates of Deposit and Bank Investment Contracts) in columns (A) through (F).

**Worksheet 720 — Investments Held Outside The State Treasurer—Interest Rate Risk**

Money market mutual funds cannot maintain a dollar-weighted average portfolio maturity (WAM) that exceeds 60 calendar days per the Securities and Exchange Commission (SEC). Therefore, the investment maturity for money market mutual funds must be less than 1 year. No amounts should be entered in the columns with maturities of 1 year or greater.

**For “Other” Investment Types:** If an “Other” investment class was chosen on Worksheet 710, the SAME category MUST be chosen from the dropdown box on Worksheet 720. Also see instructions above for the 710 WS.

**Worksheet 725**

**For “Other” Investment Types:** If an “Other” investment class was chosen on Worksheet 710, the SAME category MUST be chosen from the dropdown box on Worksheet 725 for the “Other” investments that are subject to interest rate risk. Also see instructions above for the 710 WS.

**Other Instructions are included on the 725 worksheet.**

**Worksheets 730 and 735**

**Instructions are included on the individual worksheets.**

**Worksheet 740 — Investments Held Outside The State Treasurer—Foreign Currency**

Section A. Foreign Currency Risk

Foreign currency risk disclosures should be made for all investments, including debt, equity, and real estate investments. (GASB Codification Section I50.742-2)

A government has an investment in an international mutual fund that is denominated in U.S. dollars. The fund invests in securities that do not trade in the United States and are not denominated in U.S. dollars. Foreign currency risk disclosures are not required because the investment in the fund is U.S. dollar denominated and GASB Statement 40 does not require “looking through” to the individual investments held by the fund. (GASB Codification Section I50.742-3) If the government has an investment in an international mutual fund that is not denominated in U.S. dollars foreign currency risk disclosures are required.

**Investment Type and Foreign Currency columns:** Select the investment type in Section A, Column A from the dropdown boxes provided, and the corresponding foreign currency in Column B from the dropdown boxes provided. If one investment class is denominated in multiple currencies, use multiple lines in the investment type column and choose the foreign currency denomination and key the amount for each line. An investment type AND foreign currency must be selected if an amount is provided in Column C, Carrying Value. If an investment class denominated in foreign currency is not listed, OR if a foreign currency is not included in the dropdown box in Column B, please contact your OSC Analyst.

Section B. Foreign Currency Transactions

A transaction gain or loss realized upon settlement of a foreign currency transaction generally should be recognized in the period in which the transaction is settled (GASB Codification Section F70.102). Transaction gains or losses result from a change in exchange rates between the U.S. dollar and the currency in which a foreign currency transaction is denominated. They represent an increase/decrease in (a) the actual U.S. dollar cash flows realized upon settlement of foreign currency transactions and (b) the expected U.S. dollar cash flows on unsettled foreign currency transactions (GASB Codification Section F70.504).

**Worksheets 745 and 750**

**Instructions are included on the individual worksheets.**

**Worksheet 755 — Investments Held Outside The State Treasurer and Derivatives—Fair Value Measurements**

Disclosures in this worksheet are required by GASB Statement 72. For more information on GASB 72 disclosure requirements, refer to the [GASB 72 Financial Reporting Update](https://www.osc.nc.gov/state-agency-resources/north-carolina-accounting-system-ncas/statewide-financial-reporting/gasb-resources/effective-fy-2016) (FRU) on OSC’s website.

Year-end Balance (Column A)

The 6/30/20XX balance is automatically populated from the ACFR Package 710 Investments and 340 Derivatives worksheets, except for investments listed as “other”. **For “Other” Investments:** If an “Other” investment class was chosen on Worksheet 710, the SAME category MUST be chosen from the dropdown box on Worksheet 755. Note: an investment type must be selected if an amount is listed on these rows. Key the amounts in the appropriate section of the 755 worksheet (WS). Note: If adjustments are needed to the 755 WS, contact your OSC Analyst for assistance. The 755 WS automatically populates based on how investment types are typically measured. It is the entities’ responsibility to ensure the investments are listed in the appropriate section.

Fair Value Hierarchy Levels (Columns B, C, & D)

The fair value (FV) hierarchy categorizes the inputs to valuation techniques used to measure FV into three levels. **Level 1** inputs are quoted prices (unadjusted) for *identical* assets or liabilities in active markets that a government can access at the measurement date. **Level 2** inputs are inputs that are observable (other than quoted prices in level 1) for an asset or liability, either directly (quoted market prices for *similar* assets or liabilities) or indirectly (correlated or corroborated from observable market information). **Level 3** inputs are unobservable inputs for an asset or liability. If FV of an asset or liability is measured using inputs from more than one level of the FV hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement. For example, if a measurement has three significant inputs, two are Level 2 and one is Level 3, the FV measurement is categorized as Level 3 of the FV hierarchy.

See the GASB 72 FRU appendix A (link above) for some common examples of investment FV measurements categorized within levels 1, 2, or 3 of the FV hierarchy.

Investments, Investment Derivatives, and Hedging Derivatives sections:

For investments and derivatives reported at FV, categorize the FV measurement in each level of the FV hierarchy that applies, in its entirety (Level 1, Level 2, or Level 3).

Investments measured at NAV section:

Fair values of investments measured at the net asset value (NAV) per share (or its equivalent) that meet the criteria in GASB Codification Section I50.127 - .130, the level of FV hierarchy should not be categorized and these columns left blank. Generally, these types of investments will meet the criteria in GASB Codification Section I50.127-.130. For investments measured at NAV per share (or its equivalent) that do not meet the criteria in GASB Codification Section I50.127-.130, categorize the FV measurement in each level of FV hierarchy, that applies, in its entirety (generally Level 3).

Investments as a position in an External Investment Pool section:

The level of fair value hierarchy is not required to be disclosed for a participant’s position in an external investment pool. See GASB Codification Section I50.713-9. A university’s position in the UNC Investment Fund is exempt from leveling disclosures.

Amount Not Reported at Fair Value (Column E)

If amounts in column A are not reported at FV provide the amount that is not at FV in column E. If amounts reported in column E exceed $1 million, complete the 756 Worksheet.

The sum of columns B, C, D, & E should equal column A.

Valuation Technique (Column F)

Valuation techniques are used to determine FV. A government should use valuation techniques that are consistent with one of three approaches to measure FV: the market approach, cost approach, and income approach. A single valuation technique is appropriate in some cases while multiple valuation techniques are appropriate in other cases.

See the GASB 72 FRU appendix B (link above) for some common examples of valuation techniques used to value investments.

No valuation technique should be selected for level 1 investments. If the investments are categorized as level 1, then quoted market prices is the valuation technique. Select the valuation technique from the drop down boxes in columns G, H, I, and J for investments categorized in level 2 or level 3. This allows for up to four different techniques for each investment type. If more technique selections are needed, please contact your OSC analyst. If less than four valuation techniques are needed, select the technique beginning in column G and leave columns that are not needed blank. Codes will automatically populate in the Valuation Technique, column F, based on the selections in columns G through I. If a **significant** valuation technique was used to measure the investment at FV and is not included in the drop-down boxes, select “Other” from the drop-down box and complete the related ACFR Package Narrative WS 755. For the UNC Investment Fund, the valuation technique is not required and no additional information is necessary in the narrative.

Unallocated insurance contracts and Money market mutual funds:

Investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of GASB Codification Section I50.121. If the unallocated insurance contract is a participating interest-earning investment contract, then it should be measured at FV and GASB 72 disclosures apply. If it is a nonparticipating interest-earning investment contract, it should be measured using a cost-based measure and GASB 72 disclosures would not apply. The amount not at FV should be reported in column E as explained above.

Investments in government money market mutual funds and retail money market mutual funds are measured at a $1 NAV and measured using the amortized cost method. GASB 72 disclosures do not apply to these money market mutual funds. The amount not at FV should be reported in column E as explained above. Investments in institutional prime money market mutual funds and municipal money market mutual funds that do not meet the definition of retail money market mutual funds, are measured using a floating NAV. These mutual funds can no longer be valued at amortized cost thus GASB 72 disclosures apply. However, it is likely that the difference between cost and FV are immaterial. Use professional judgment to determine if the difference is material and requires FV disclosures.

Other disclosures:

If your entity had a change in valuation technique that had a significant impact on the result, then complete the ACFR Package Narrative WS 755. For example, changing from an expected cash flow technique to a relief from royalty technique or the use of an additional valuation technique.

If your entity reported any nonrecurring fair value measurements, then complete the ACFR Package Narrative WS 755. For example, if you measured an impaired capital asset at fair value, then additional disclosures are required.

**Worksheet 756 — Investments Held Outside The State Treasurer—Valuation of Investments (Note: the Department of State Treasurer should include all investments).**

Identify investments on Worksheet 710 (by investment type) that are not reported at fair value and have a carrying value of **$1 million or more** (see Worksheet 755, column E).

GASB standards generally require most investments to be reported at fair value but permit or require cost-based measures as specified below:

* Nonparticipating contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, should be reported using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors. [GASBS Codification I50 .121]
  + This exception from reporting at fair value is provided because these contracts are not able to realize market-based increases or decreases in value under any circumstances. [GASB Codification I50 .716-6]

Governmental Entities Other Than External Investment Pools

* Governmental entities other than external investment pools may report at amortized cost money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of **one year or less**, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. [GASB Codification I50 .123]
  + Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations. Asset-backed securities, derivative instruments, and structured notes are not included in this term [GASB Codification I50 .123]. For example, a five-year U.S. Treasury bond purchased nine months prior to maturity would meet this definition [GASB Codification I50, fn9].
  + The policy for determining which investments, if any, are reported at amortized cost should be disclosed in the notes to the financial statements. [GASB Codification I50 .143a.]

External Investment Pools

* All external investment pools may report short-term debt investments with **remaining maturities of up to ninety days** at the date of the financial statements at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. For an investment that was originally purchased with a longer maturity, the investment's fair value on the day it becomes a short-term investment should be the basis for purposes of applying amortized cost. [GASB Codification In5 .102]
  + If a governmental external investment pool includes internal moneys belonging to the pool's sponsor, the accounting guidance applicable to governmental external investment pools should be followed for the entire pool. The pool is not permitted to follow the cost-based standards for money market investments and participating interest-earning investment contracts, even though a portion of the pool represents internal moneys. [GASB Codification I50 .725-2]
  + The policy for determining which investments, if any, are reported at amortized cost should be disclosed in the notes to the financial statements. [GASB Codification I50 .143a.]

**Worksheet 760 — Investments Held Outside The State Treasurer—Investments Measured at NAV**

**Only applies to UNC Chapel Hill, the State 401(k) plan, and the State Deferred Compensation Plan.**

Include the amount of your entity’s unfunded commitments related to that investment type in the unfunded commitments column.

A general description of the terms and conditions upon which a government may redeem investments in the type should be listed in the redemption frequency column and redemption notice period column. For example, in the Redemption Frequency column, “Quarterly” or “Quarterly, annually” are appropriate responses. In the Redemption Notice Period column, “30 – 60 days”, “30 - 45 days”, etc. are appropriate responses.

**Additional disclosures are also required.** **Complete ACFR Package Narrative WS 760.**

**Worksheet 765 — Investments Held Outside The State Treasurer—External Investment Pools and Pool Participants**

**Only applies to Department of State Treasurer, Department of Transportation, the UNC System, the State 401(k) Plan, and the State Deferred Compensation Plan.**

GASB 79 requires disclosures for qualifying external investment pools that elect to measure all of its investments at amortized cost and pool participants of qualifying external investment pools that measure all of their investments at amortized cost. Review the criteria on the worksheet and in the Financial Reporting Update link contained within the worksheet to determine if your agency/institution operates a qualifying external investment pool that elects to measure all of its investments at amortized cost or if your agency/institution participates in a qualifying external investment pool that elects to measure all of its investments at amortized cost. If you answer yes to either of these questions on this worksheet, you will also need to complete the related **ACFR Package Narrative** disclosures.

### Definitions and Terms

The following general definitions should be useful in classifying cash and investments. For more specific account definitions, see:

[Chart of Accounts | NC OSC](https://www.osc.nc.gov/state-agency-resources/chart-accounts)

***Current Assets – Accounts 11XXXX***

***Restricted Assets***

Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset. For example, cash and investments normally are classified as current assets and a normal understanding of these assets presumes that restrictions do not limit the government’s ability to use the resources to pay current liabilities. However, the following resources are not available for current operations and should be reported as restricted assets:

* Resources restricted or designated for the acquisition/construction of the government’s own capital assets
* Resources legally segregated for the payment of principal and interest only (as required by debt covenants) and that cannot be used to pay other current liabilities.
* Temporarily invested debt proceeds.
* Nonexpendable resources of permanent funds.

***Current Restricted Assets – Accounts 11RXXX and some 112XXX***

When restricted assets are being used to repay maturing debt or other accrued liabilities, the appropriate portion of each should be treated as a current asset and a current liability.  To report the debt as current, but the restricted assets that will be used to repay it as noncurrent, would distort working capital.

Cash, Cash Equivalents, and Pooled Cash – Current Restricted

11RXXX Accounts

Investments Outside the State Treasurer and Pooled Investments – Current Restricted

112125 - Restricted Investments

112152 - Allowance Fair Value Restricted Investments

112250 - Bond Proceeds – Restricted (For Use Only by State Treasurer and OSC Central Accounts)

##### *Non-Current Restricted Assets – Accounts 12XXXX*

Cash, Cash Equivalents, Pooled Cash – Noncurrent Restricted

121XXX Accounts

Investments Outside the State Treasurer – Noncurrent Restricted

122125 – Endowment Investments

122126 – Restricted Investments

122152 – Allowance Fair Value Endowment Investments

122153 – Allowance Fair Value Restricted Investments

Receivables – Noncurrent Restricted

124100 - Restricted Due From Primary Government

**Investment Type Definitions**

**Annuity contracts** – Annuities are investment products purchased through insurance companies. The annuity itself is a contract between an insurance company and the annuity owner that provides for periodic payments to the annuity owner or designated beneficiary in return for an investment.

**Asset-backed securities** – These securities are bonds or notes backed by financial assets. Typically these assets consist of receivables other than mortgage loans, such as credit card receivables, auto loans, manufactured-housing contracts and home-equity loans.

**Balanced mutual fund** – A mutual fund that seeks to provide some combination of growth, income, and conservation of capital by investing in a mix of stocks, bonds, and/or money market instruments.

**Bank investment contracts** - These are general obligation instruments issued by banks or other financial institutions that provide for a guaranteed return on principal over a specified period.  The deposits in these contracts are typically subject to federal insurance

**Certificates of deposit (nonnegotiable)** - CDs are time deposits that are placed by depositors directly with financial institutions and that generally are subject to a penalty if redeemed before maturity—and should be treated as deposits for purposes of Statement 3 and 40 disclosures.

**Collateralized mortgage obligations (CMOs)** – These securities are created by packaging mortgage pass-through securities (or in some cases mortgage loans themselves) into a multi-class security offering, using the underlying pool of mortgages as collateral. Common issuers of CMOs include GNMA and government-sponsored enterprises such as Freddie Mac and Fannie Mae. Private entities such as financial institutions, investment banks, and homebuilders also issue CMOs.

**Commercial paper** - This is a money-market [security](http://en.wikipedia.org/wiki/Security_(finance)) issued (sold) by large [banks](http://en.wikipedia.org/wiki/Bank) and [corporations](http://en.wikipedia.org/wiki/Corporation) to get [money](http://en.wikipedia.org/wiki/Money) to meet short term [debt](http://en.wikipedia.org/wiki/Debt) obligations and is only backed by the issuing bank’s or corporation's promise to pay the face amount on the maturity date specified on the note.

**Debt mutual funds** – These are mutual funds that invest exclusively in fixed income securities issued by U.S. based companies, the U.S. government, and/or state and local governments.

**Domestic corporate bonds** – These are investments in bonds issued by U.S. based companies.

**Domestic stocks (common & preferred)** – These are investments in stocks of U.S. based companies.

**Equity mutual funds** – These are mutual funds that invest primarily in U.S. stocks, usually common stocks.

**Foreign corporate bonds** – These are bonds issued by non-U.S. companies.

**Foreign government bonds** – These are bonds issued by non-U.S. governments.

**Foreign stocks** – These are investments in stocks of non-U.S. based companies.

**Hedge funds** –Hedge funds are actively managed funds that tend to employ much more aggressive investing strategies than traditional mutual funds. These strategies often include short selling, options and the use of leverage. By law, hedge funds are private entities that are not required to disclose most items to the public.  As a result, hedge funds are subject to very few regulatory restrictions.

**International mutual funds** – These are mutual funds that invest predominantly or exclusively in stocks issued in foreign countries or stocks and bonds issued in foreign countries.

**Investment agreements** –These are general obligation instruments issued by insurance companies or other companies that are not financial institutions that provide for a guaranteed return on principal over a specified period.

**Investments in real estate** - Land and all physical property related to it that is owned by state agencies and universities for investment purposes (e.g., endowment fund properties).

**Money market mutual funds** – These are mutual funds that invest exclusively in short-term, low-risk, fixed income securities. Money market funds attempt to keep their net asset values at $1 per share, such that only the yield changes. Money market funds are regulated by Securities and Exchange Commission's (SEC) Investment Company Act of 1940, Rule 2a-7. Money market mutual funds are not federally insured.

**Mortgage pass throughs** – These securities are created from pooling mortgage loans and are commonly referred to as mortgage-backed securities or participation certificates. Investors in such securities have a direct ownership interest in the pool of mortgage loans. The majority of mortgage securities are issued and/or guaranteed by an agency of the U.S. government, the Government National Mortgage Association (Ginnie Mae), or by government-sponsored enterprises (GSEs) such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

**Negotiable certificates of deposit** – Negotiable CDs are securities that normally are sold in $1 million units and that can be traded in a secondary market—and should be treated as investments for purposes of Statement 3 and 40 disclosures.

**Pooled debt funds** – These are pooled investment funds (not mutual funds) that invest exclusively in fixed income securities.

**Private equity limited partnerships** - Private pools of capital structured in a limited partnership investing in securities of non-publicly traded companies. Common strategies include leveraged buyouts, venture capital, distressed investments, and mezzanine capital. Can consist of hedge funds that invest in private equity companies’ acquisition funds and require some months notice to exit. Valuation is a quarterly capital account statement, not a monthly net asset valuation (NAV).

**Real assets limited partnerships** - Private pools of capital structured in a limited partnership investing in real assets. Real assets consist of real estate, energy and natural resources. Valuation is a quarterly capital account statement, not a monthly net asset valuation (NAV).

**Real estate investment trust** – These are investments with a company operating a Real Estate Investment Trust (REIT). A portfolio of real estate is managed in order to earn profits for its shareholders. The investment in these REIT's represent a share of ownership in the trust, not a parcel of real estate.

**Repurchase agreements** - Agreements in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities (as in definition (a) above) or for different securities.

**State and local government** - Bonds issued by states, cities, counties and/or other governmental entities in the U.S.

**U.S. agencies** – Agency securities include all debt instruments issued by U.S. government agencies, departments, government-sponsored corporations and related instrumentalities. These include the following:

* Discount notes issued by federal farm credit banks, FNMA, and Federal Home Loan Banks;
* Variable-rate notes issued by the Student Loan Marketing Association, Small Business Administration, and the Agency for International Development;
* Coupon securities issued by FNMA, the Federal Home Loan Bank, Bank for Co-Ops, Federal Land Banks, World Bank, and the Private Export Funding Corp; and
* Mortgage Pass-through Securities issued by GNMA and FHLMC (Freddie Mac).

**U.S. treasuries** —Treasury securities, which include bills, notes and bonds, are debt obligations of the U.S. government. Because these debt obligations are backed by the “full faith and credit” of the U.S. government, and thus by its ability to raise tax revenues and print currency, U.S. Treasury securities are considered the safest of all investments. They are viewed in the market as having no “credit risk,” meaning that it is virtually certain your interest and principal will be paid on time.

**U.S. treasury strips** – STRIPS is the acronym for Separate Trading of Registered Interest and Principal of Securities. The STRIPS program lets investors hold and trade the individual interest and principal components of eligible Treasury notes and bonds as separate securities. When a Treasury fixed-principal note or bond or a Treasury inflation-protected security (TIPS) is stripped, each interest payment and the principal payment becomes a separate zero-coupon security. All Treasury notes and bonds are strippable. STRIPS are obligations of the U.S. Treasury and are backed by the full faith and credit of the United States.

**Other Key Definitions**

**Collateralized** - The underlying mortgage-backed securities backing a CMO deal.

**CMO Tranche Types:** The tranche type is determined based on a series of descriptors. The descriptors are ordered to reflect the principal payment behavior of the bond and then the interest payment behavior of the bond. The following is a list which describes each descriptor:

**AD** Accretion Directed - A bond that pays principal from specified accretions of accrual bonds.

**CPT** Component - A bond comprised of multiple components, sometimes of different types.

**DLY** Delay - Floating rate of inverse floating rate class for which there is a delay between the end of the interest accrual period and the payment date.

**FIX** Fixed Interest Rate - A bond whose coupon rate does not vary.

**FLT** Floater - A bond whose coupon resets periodically based upon a predetermined index. The coupon varies directly with changes in the index.

**INV** Inverse Floater - A bond whose coupon resets periodically based upon a predetermined index. The coupon varies inversely with changes in the index.

**IO**  Interest Only - A bond that receives some or all of the interest portion of the underlying collateral and little or no principal.

**LIQ** Liquidity - LIQ bonds are an agency issue bond that has a five-year or less original stated maturity or any non-agency issue that has a three-year or less original stated maturity.

**NPR** Non-Paying Residual - Residual bond which pays neither principal nor interest.

**PAC** Planned Amortization Class - A bond that pays principal based on a predetermined schedule. The schedule is maintained as long as prepayment rates remain between the upper and lower “collar” rates.

**PO** Principal Only - A bond that does not receive any interest.

**SCH** Scheduled - A bond that pays principal based on a predetermined schedule, but does not fit the definition of a PAC or TAC. Generally, scheduled tranches have a prepayment collar that is too narrow to be called a PAC.

**SEQ** Sequential Pay - A bond which starts to pay principal when classes with an earlier priority have been paid off. SEQ bonds have an uninterrupted payment of principal until retired.

**SUP** Support - A bond that receives principal payments after scheduled payments have been made on some or all PAC, TAC, and /or SCH bonds for each payment date.

**TAC** Target Amortization Class - A bond that pays principal based on a predetermined schedule. Similar to a PAC, but with less extension protection.

**Z** Accrual - A bond that accretes interest which is added to the outstanding principal balance.

**Concentration of credit risk** -The risk of loss attributed to the magnitude of a government’s investment in a single issuer.

**Counterparty** - The party that pledges collateral or repurchase agreement securities to the government or that sells investments to or buys them for the government.

**Credit risk** - The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**Custodial credit risk** - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

**Depository insurance** - Depository insurance includes:

a. Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation.

b. State depository insurance funds.

c. Multiple financial institution collateral pools that insure public deposits. In such a pool, a group of financial institutions holding public funds pledge collateral to a common pool.

**Derivatives** - Financial arrangements whose returns are linked to, or derived from, some underlying stock, bond index, commodity, or other asset. They come in two basic types: options and “forward-type” derivatives, which include forwards, futures, and swaps. They may be listed on exchanges or negotiated privately between institutions.

**Derivative Securities** - Trade like normal bonds, but their returns are determined by, or derived from, factors other than plain interest rates. For instance, returns on “structures notes” may vary in line with changes in stock prices, commodity prices, foreign exchange rates, or two different interest rates. Return on mortgage derivatives involve bets on the rate at which homeowners will repay mortgages, and often act like leveraged interest rate options.

**Embedded option** - A provision or term in a financial instrument that allows one party to change the timing or amount of one or more cash flows associated with that instrument. Examples include prepayment options on asset-backed securities.

**Extension Risk** - Possible illiquidity of an investment due to a change in interest rate that slows down prepayments. The investor may have to hold the investment longer than originally intended to recover the amount invested.

**Federal Deposit Insurance Corporation** - A corporation created by the federal government that insures deposits in banks and savings associations.

**Floater** - A CMO class created from fixed rate mortgage backed collateral whose coupon adjusts on a monthly basis versus a market index.

**Foreign currency risk** - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

**High-risk** - A type of security deemed unsuitable for specified investors by certain regulatory agencies.

**Index** - A benchmark measure of interest rates used in calculating coupons on adjustable securities.

**Interest Only** - A security whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

**Interest rate risk** - The risk that changes in interest rates will adversely affect the fair value of an investment.

**Inverse Floater** - A CMO class whose coupon adjusts opposite to the changes in a market index.

**Issuer** - An issuer is the entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company-manager or pool sponsor.

**Legal Risk** - The possible financial loss resulting from an action by a court or by a regulatory or legislative body that could invalidate a financial contract.

**Market Risk** - The risk that the market value of an investment, collateral protecting deposits, or securities underlying a repurchase agreement will decline. This type of risk is affected by the length to maturity of a security, the need to liquidate a security before maturity, the extent that collateral exceeds the amount invested, and the frequency at which the amount of collateral is adjusted for changing market values.

**Negative Convexity** - Measure of how prices react to changes in interest rates. Many CMOs are negatively convex, which means that when interest rates are falling, the price of the CMO may not rise as rapidly as a Treasury bond with equivalent coupon and maturity. When interest rates rise, the CMO may experience more severe price declines than the equivalent Treasury bond. Negative convexity is the result of changes in how quickly or slowly the principal of a CMO is being paid. Changes in the speed of principal payments are a function of how quickly the mortgages that make up the bond collateral are paid off, either through refinancing or home sales. Investors who have adequate information about the degree of negative convexity of a security will demand protection from this risk in the form of a discounted price.

**Prepayment Risk** - The risk associated with the extension or contraction of principal repayments in a pooled mortgage security. Prepayments of any loan in the mortgage pool by a borrower will shorten the average life of the security and also affect the yield. As interest rates decline, the borrowers are more likely to refinance their mortgage into a lower rate loan.

**Principal Only** - A security whose payment represents the principal stream of cash flow from the underlying mortgage-backed collateral and bears no interest rate.

**Reset date** - The time, frequently quarterly or semiannually, that a bond’s variable coupon is repriced to reflect changes in a benchmark index.

**Segmented time distributions** - Segmented time distributions group investment cash flows into sequential time periods in tabular form.

**Tolerable Risk** - The level of risk an entity is willing to accept without regards to the potential returns. Only investment activity below this threshold will be undertaken. Tolerable risk should be established when the entity outlines its investment objectives.

**Tranche** - A security class of a CMO deal.

**Uncollateralized deposit** - An uncollateralized deposit does not have securities pledged to the depositor-government.

**Variable-rate investment** - An investment with terms that provide for the adjustment of its interest rate on set dates (such as the last day of a month or calendar quarter) and that, upon each adjustment until the final maturity of the instrument or the period remaining until the principal amount can be recovered through demand, can reasonably be expected to have a fair value that will be unaffected by interest rate changes.

**Volatility** - The relative impact of changing interest rates in general market conditions on an investment.

**Weighted Average Life (WAL)** - The average amount of time the principal balance of a mortgage pool is outstanding.

**Weighted average maturity** - A weighted average maturity measure expresses investment time horizons—the time when investments become due and payable—in years or months, weighted to reflect the dollar size of individual investments within an investment type.

**Yield** - The annual return on an investment (from dividends or interest) expressed as a percentage of either cost or current price.

**Yield to Maturity** - Refers to the yield of a bond also taking into account the premium or discount of the bond.

**Z-Bond** - This tranche of a CMO is similar to a coupon bond. Rather than receiving interest, it is reinvested at the coupon rate of the security. Z-bonds are generally the last tranche in a pool of collateralized mortgage obligations.