

Office of the State Controller

Alert # 180



TO: Controllers and Chief Fiscal Officers of State Departments
And Higher Education Institutions and Boards

FROM: David J. McDermott, State Controller

A handwritten signature in black ink, appearing to read "David J. McDermott", is written over the printed name in the "FROM:" field.

DATE: September 9, 2008

SUBJECT: Loans & Advances – Average Deficit Reporting
Cash Fund Interest Allocation
Pell Grant Financial Statement Presentation
Bond Insurance Company Downgrades
OSPB Granted Financial Data Warehouse (FDW) Access
New Staff at the OSC

Loans & Advances – Average Deficit Reporting

Chapter 5: Section 3 of the fiscal procedures manual describes statutory reporting for outstanding loans and advances. Please review this section regarding requirements related to cash deficits in funds other than fund 100, 1EX, 461, and 600. According to the manual, the "OSC (Office of the State Controller) does a monthly internal report to identify deficit cash balances at the close of any fiscal period, and the State Treasurer uses the COFRS CAM02 report to identify cash accounts with average daily balance deficits." The level of detail in the existing CAM02 has made it cumbersome to identify average deficit monthly cash balances. COFRS has recently designed the CAM02R4 report summarized by agency and fund to simplify identification of average deficits previously masked by a positive month end closing balance. Starting in Fiscal Year 2008-2009, the OSC will use this report in its monthly analysis of cash deficits to determine loan/advance requirements and any related interest charges. Please contact your FAST representative if you have any questions.

Cash Fund Interest Allocation

Last legislative session produced many new cash funds that earn interest. Please remember it is the agency/institution's responsibility to provide Treasury with the House or Senate bill creating the fund and the appropriate coding string for earned interest. This may also apply to funds created in earlier sessions that are only now carrying cash balances. Additionally, with the FY08-09 Long Bill recast the interest income revenue source code in use previously may be required to be updated based on how the earnings have been appropriated. Treasury's contact for this information is Cindy Johnson. She is at 303-866-4948 or cindy.johnson@state.co.us.

Pell Grant Financial Statement Presentation

This information was previously communicated via e-mail on July 25, 2008:

There has been some concern about classification of Pell grants as operating or nonoperating revenue due to the GASB Comprehensive Guide, Question 7.72.10. It is the position of the State Controller that Institutions should present Pell Grants as operating revenues on the Statement of Revenues, Expenditures and Changes in Net Assets. The state will also present Pell Grants as operating revenues in the state's Comprehensive Annual Financial Report. GASB Implementation Guide question and answer (Q&A #7.72.10) requires Pell Grants to be presented as nonoperating revenues. It is the State Controller's position that this Implementation Guide Q&A is in conflict with the clear direction in paragraph 102 of GASB 34, which requires individual governments to develop and consistently apply a definition of operating and nonoperating revenues and expenses that is appropriate to the activity. The state has defined operating and nonoperating revenues and expenses in Higher Education Accounting Standard #17. Because GASB 34 is higher level GAAP than is the Implementation Guide, the State Controller believes it is appropriate for the state to continue to report Pell Grants as operating.

The Office of the State Auditor has instructed the contract auditors of Higher Education Institutions to base any findings related to Pell Grant presentation as operating or nonoperating on compliance with the State Controller's directive. As a result, there will be consistent presentation of Pell Grants across all state Higher Education Institutions.

Please contact your FAST representative if you have questions regarding this directive.

Bond Insurance Company Downgrades

This information was previously communicated via e-mail on July 17, 2008:

If your agency has issued Certificate of Participation (COP) bonds or debt instruments of any form it is important for you to read the following information. If you are certain that you have not issued debt in any form you may ignore the remainder of this section.

The OSC has become aware that certain State of Colorado Certificate of Participation (COP) issuances have a Continuing Disclosure Undertaking (CDU) material event due to bond insurance company downgrades. If your agency/institution has an outstanding COP issuance or other rated debt instrument that was insured by a bond insurance policy from Ambac, MBIA or XL Capital Assurance, there are likely continuing disclosure requirements related to the downgrade. SEC Rule 15c2-12 requires underwriters to enter into a CDU agreement with each issuer to ensure that annual financial information and material events are disclosed to investors. Downgrades in ratings are listed as one of eleven material events. The CDU agreement is normally attached as an exhibit in the Official Statement. The bond insurance ratings are listed on the front cover of the Official Statement. The Office of the State Controller recommends that you review the current ratings of the bond insurance underlying your outstanding debt instruments to determine if any have been downgraded.

If you find that any of your debt instruments have been downgraded, you should review your CDU requirements. If you find that such requirements apply, you can meet those requirements relatively simply by signing up on www.disclosureusa.com to do the post issuance filings online. For more summarized information on the continuing disclosure requirements in SEC Rule 15c2-12 visit:

http://www.sqrlaw.com/resources/briefings/bond_practice/973/.

It is important to note that the IRS has recently announced a program to increase its review of tax exempt municipal debt issuers to determine their compliance with the arbitrage rules, records retention, and continuing disclosure requirements.

As an update to the previously distributed information, the SEC is proposing the establishment of an Electronic Municipal Market Access System (EMMA) to replace the multiple public and private disclosure services in order to provide the public with a centralized, internet-based system for information related to municipal securities. The proposed effective date is January 1, 2009. For more information regarding the proposed changes please visit: <http://www.sec.gov/rules/sro/msrb/2008/34-58256.pdf>.

If you have any questions, please contact your FAST specialist.

OSPB Granted Financial Data Warehouse (FDW) Access

OSPB recently requested and was granted statewide inquiry access to the FDW. With this change, please be aware that reports may be generated by OSPB from FDW without verification from the Reporting and Analysis Section (R&A) of the OSC. R&A will confirm any information generated by OSPB at their request. Although OSPB has been granted FDW access, R&A will continue to be available to assist OSPB with their information needs. Please contact your FAST member with any questions.

New Staff at the OSC

On July 1, 2008, Jerrod Cotosman joined the OSC as the new Reporting & Analysis Manager. Jerrod comes to the OSC from the Office of the Child's Representative in the Judicial Branch. You may direct your questions regarding financial statements, TABOR, and other Reporting & Analysis functions to Jerrod at 303-866-2659 (jerrod.cotosman@state.co.us). Welcome Jerrod!

On August 1, 2008, Jerri Dahl joined Central Payroll after 23 years with the Community College of Denver. She will be processing prepayments and refunds as well as reconciling the liabilities for Central Payroll. Jerri can be reached at (303) 866-4571 or by email at jerri.dahl@state.co.us. Welcome Jerri!