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**NOTES TO THE FINANCIAL STATEMENTS**


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**NOTE 21: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**


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**CHANGE IN METHOD OF APPLYING PREVIOUSLY IMPLEMENTED ACCOUNTING PRINCIPLE**

For the fiscal year ended June 30, 2006, the State changed its methodology, as it regards individual income taxes, for applying GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Specifically, the State now reports an estimate of underpayments of individual income taxes whereas before this change it did not. In addition, the State has changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds).

For the purpose of reporting underpayments, the State changed the availability period for recognizing individual income tax revenues in the governmental fund financial statements. The availability period for individual income taxes was extended from thirty-one days to twelve months after year-end (see Note 1). Furthermore, in the circumstance where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

The change in methodology as described above results in a more accurate estimate of overpayments of individual income taxes and also allows for the accounting recognition of both underpayments and overpayments of individual income taxes in the period when taxable income is earned by taxpayers (see Note 22).

**CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2006, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*.
- GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*.

GASB Statement No. 44 enhances and updates the statistical section that accompanies the basic financial statements. This pronouncement adds new information that users have identified as important and eliminates certain previous requirements. The statistical section now includes trend information on fund balances and principal employers and government-wide, accrual-based information required by GASB Statement No. 34. It also now includes revenue capacity

information and information about operating indicators and capital assets. Finally, this pronouncement improves the understandability and usefulness of the statistical section by requiring governments to augment their schedules with certain narrative explanations.

GASB Statement No. 46 provides clarifications regarding the meaning of the phrase *legally enforceable* as it applies to restrictions imposed on net asset use by enabling legislation. This pronouncement also specifies the accounting and financial reporting requirements if legal enforceability is reevaluated. During the fiscal year, the State determined that constraints placed on net asset use by enabling legislation are not legally enforceable. An Attorney General Advisory Opinion referenced that the Governor, pursuant to his constitutional authority under Article III, Section 5(3), may use resources restricted by enabling legislation in his discretion to meet a budget shortfall. Such amounts previously reported as restricted are reclassified to unrestricted net assets.

GASB Technical Bulletin No. 2006-1 clarifies how state and local governmental entities should report payments received from the federal government under the retiree drug subsidy provisions of Medicare Part D. Such payments made to the State Health Plan constitute on-behalf payments for fringe benefits. In the statement of changes in plan net assets, the State Health Plan displays payments from the federal government as "Other contributions" (see Note 15).

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement 47, *Accounting for Termination Benefits*, have no material impact on the State's financial statements as the items to which these pronouncements would apply are immaterial.

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