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**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 22: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

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

For the fiscal year ended June 30, 2009, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49 addresses the accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. Once any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The pollution remediation liability should be recorded at the current value and estimated using the expected cash flow technique.

GASB Statement No. 52 establishes standards for reporting land and other real estate held as investments by endowments. It amends GASB Statement No. 31 by requiring endowments to report their land and other real estate investments at fair value instead of at cost. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. This pronouncement impacts the University of North Carolina System and community colleges (discretely presented component units).

The following pronouncements became effective for the fiscal year ended June 30, 2009 but either did not change current practice (i.e., GASB Statements Nos. 55 and 56) or did not apply under current conditions (GASB Technical Bulletin No. 2008-1):

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.
  - GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.
  - GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*.
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**CHANGE IN ACCOUNTING POLICY**

During the fiscal year ended June 30, 2009, the State changed its method of accounting for inventories of governmental funds from the purchases method to the consumption method. Under the consumption method, inventories of governmental funds are recognized as expenditures when consumed rather than when purchased. The State made this change to eliminate a reconciling item between the fund and government-wide financial statements and to account for all inventories in the financial statements using the same method. This change had no impact on beginning fund balance.