SUBJECT: Reporting Standards for Investment Gains and Losses

Effective Beginning Fiscal Year 1997-98

This correspondence provides guidance on accounting and financial reporting standards for investment gains and losses, both realized and unrealized. This guidance is in accordance with GASB Statement No. 31 and will be of particular interest to those school administrators experiencing investment losses as a result of the Devon Capital Management, Inc. and Financial Management Sciences, Inc. investment practices.

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 31 which is effective beginning with the 1997-98 fiscal year. This new governmental accounting standard requires all investment income, including changes in the fair value of investments (increases and decreases), to be recognized as revenue in the operating statement.

The Statement also states that an entity may disclose realized gains and losses in the notes to the financial statements. However, when extraordinary gains or losses are reported on the operating statement, governmental accounting standards require that an explanation of the event giving rise to the extraordinary gain or loss be reported in the notes to the financial statements. Therefore, schools experiencing losses due to the Devon Capital Management, Inc. and Financial Management Sciences, Inc. investment crisis, or similar losses of this magnitude, should disclose the investment loss in the notes to the AFR, in addition to reporting the loss on the operating statement.

Schools experiencing gains or losses in the fair value of investments should make the following entry for the 1997-98 fiscal year to account for the change in investments on the 1997-98 fiscal year Annual Financial Report (AFR):

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6510 Interest on investments/checking accounts XXX
  0110 Investments XXX
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(To report changes in fair value of investments)

We are currently revising the definition for revenue account 6530, Gains or Losses on Sale of Investments, for use with all funds. Prior to the issuance of GASB Statement No. 31, this account was generally used by proprietary funds only. The AFR will also be revised for the 1998-99 fiscal year to collect investment earnings at the 500 level, instead of other 6510 sub-account level, so all investment income within the 6500 account series,
including accounts 6510, 6520, 6530, 6540 and 6590 will be collected in total.

You may use the 6530 account to track gains and losses on investments for the 1997-98 fiscal year to maintain consistency between years. We are not requiring the use of account 6530 for the 97-98 fiscal year because it is after the fact and we did not provide for this account on the 1997-98 AFR spreadsheets. We do recommend using the 6530 account for internal reporting purposes to ensure comparability between years.

However if you do use the 6530 account for the 1997-98 fiscal year, you must combine your 6530 account balance with your 6510 account balance when completing the 1997-98 fiscal year AFR spreadsheet for Commonwealth reporting purposes. The 1997-98 fiscal year AFR spreadsheet provides for the loading of account 6510 only.

All school business officials must use revenue account 6530, instead of revenue account 6510, to account for gains and losses in the fair value of investments, in the 1998-99 fiscal year and future years. The entry for this transaction should be:

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6530   Gains or Losses on Sale of Investments   XXX
      0110 Investments                               XXX
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Questions regarding this bulletin may be directed to the School Finance staff within the Office of Comptroller Operations at Ra-Schlfin@state.pa.us