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May 31, 2016

TO: Chief School Administrators
Charter School Lead Persons
Renaissance School Project Lead Persons
School Business Administrators/Board Secretaries
Public School Accountants

FROM: Yut'se O. Thomas, Director 
Office of School Finance

SUBJECT: Potential Impact of Implementation of Governmental Accounting Standards
Board (GASB) Statement No. 72 on Investments in Solar Renewable Energy
Certificates (SRECs) at June 30, 2016

First implemented for the June 30, 2016 year-end, GASB Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for financial reporting purposes. The statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 72 paragraph 86 defines investment as, "a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash." SRECs are accounted for separately from the electricity savings that the solar system generates, providing an asset that the public school can exchange into spendable cash, another source of local revenue. Accordingly, beginning with the June 30, 2016 year-end, SRECs are subject to the financial reporting and footnote disclosure requirements of GASB Statement No. 72.

Financial Reporting Prior to Implementation of GASBS No. 72

Prior to the implementation of GASB Statement No. 72, public schools that had unsold SRECs at June 30 reported an investment at fair market value on the full-accrual District-Wide Statement of Net Assets (A-1). A public school's inventory of SRECs at June 30 that remained in inventory on August 31st (60 days after year end) were not reported as an asset on the modified accrual Governmental Funds Balance Sheet (B-1). Accordingly, there was no impact from the investment(s) held at June 30 that continued to be held at August 31 upon the modified accrual fund balance. Additionally, there was no impact on the general fund balance of the budgetary-basis General Fund Budgetary Comparison Schedule (C-1).

Financial Reporting Upon Implementation of GASBS No. 72

Because the New Jersey Department of Education believes SRECs have an active market with sufficient frequency and volume to provide fair market pricing information on an ongoing basis (refer to GASB Statement No. 72, paragraph B53), public schools holding SRECs are encouraged to review and document the status of their SREC investments prior to June 30, and to perform an evaluation of the financial reporting impacts of holding the investments at June 30. SREC inventory that is retained by a public school at year-end will continue to be reported at fair market value on the full-accrual District-Wide Statement of Net Assets (A-1). SRECs held at June 30 that are not converted into cash within 60 days of year-end (defined as August 31), under GASB Statement No. 72, are recorded and reported in the

Governmental Funds Balance Sheet (B-1) as an investment valued at fair market value. Accordingly, upon implementation of GASB Statement No. 72, the public school's modified accrual basis fund balance comparison(s) may be impacted by the change in a school's SREC investment valuation at June 30 of a given year. Additionally, public schools holding SRECs that have significant changes in valuation must report those changes as gains and losses on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance (B-2). This requirement of GASB Statement No. 72 is necessary because those gains and losses represent increases and decreases, respectively, of (a) that public school's ability to finance its activities, and (b) the financial resources available to finance claims on that public school's resources.

There is no change attributable to the implementation of GASB Statement No. 72 with regard to the reporting of actual revenue from the sale of SRECs on the budgetary basis in the General Fund Budgetary Comparison Schedule (C-1). That is, as under prior standards, upon implementation of GASB Statement No. 72, the local revenue generated from actual sales of SRECs during the year and within 60 days of year-end is recorded and reported as revenue and as an increase in budgetary fund balance. Gains and losses associated with the valuation of SRECs held in inventory at June 30 are not reported in the budgetary basis General Fund Budgetary Comparison Schedule (C-1) and have no impact on budgetary fund balance. Resultant differences between the budgetary basis schedules and modified accrual basis statements (GAAP) are reported on the C-3, Budget to GAAP Reconciliation.

In conclusion, please note there is no change to the school district budget process attributable to holding an investment in SRECs at June 30 that is resultant from the implementation of GASB Statement No. 72.

GASB Statement No. 72 is available on the GASB website: [GASB 72](#)

Questions regarding the implementation of GASB Statement No. 72 should be emailed to doecafr@doe.state.nj.us.

KD/YOT/MM

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