HB

164

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

RECEIVED
MAR 30 1983

March 29, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff L.S.

Re: Distribution of Permanent Fund Dividends to Municipalities
Research Request 83-23 -- Final Report

Bob Harris of your staff requested a summary of findings regarding our analysis of the fiscal impacts of HB 164. The analysis, describing how much money would be distributed to municipalities and unincorporated communities, was delivered to your office on March 8. The discussion below briefly describes the analysis and highlights its major findings.

Description of Analysis

HB 164 would distribute the real earnings of the Permanent Fund to every municipality and unincorporated community of greater than 25 on a per capita basis. According to HB 164, the distributed Permanent Fund earnings could only be used to create local permanent funds; i.e., localities could only invest and not spend the Permanent Fund earnings they receive. However, each year, municipalities and unincorporated communities could spend 75 percent of their funds' interest income.

The analysis we performed answered three questions: first, how much money would be distributed to municipalities and unincorporated communities; second, what would be the size of each local permanent fund; and third, how much much money would be available for spending from the earnings of the community permanent funds.

These questions were addressed for every fiscal year 1984-1990. However, the answers to these questions are highly dependent on estimates of future interest and inflation rates. Therefore, in addition to a most likely scenario that projects a future interest rate of 10 percent and a future inflation rate of 6 percent, we also analyzed two other interest and inflation rate combinations. One alternative contained the fairly high interest and inflation rate levels of 13 and 10 percent respectively, and the second alternative contained relatively low interest and inflation rate levels of 6 and 4 percent respectively. It is worth noting, however, that the real rate of return (the difference between the interest and inflation rate) varies from 4 percent under the most likely scenario to 3 percent under the high interest and inflation rate scenario to 2 percent under the low interest and inflation rate scenario.

Summary of Findings

The amount of money each community receives is based on its population. Communities receive their largest share of Permanent Fund earnings, have their largest fund balances, and have the most money available for spending under the most likely scenario of a 10 percent interest rate and 6 percent inflation rate.

Increasing the interest and inflation rates to 13 and 10 percent respectively actually decreases the Permanent Fund earnings distributed to communities and decreases the size of local fund balances. These phenomena occurs because the Permanent Fund's inflation-proofing mechanism retains more money to compensate for lost purchasing power as the real rate of return falls from 4 to 3 percent. However, because the amount of money available for spending from the local permanent funds is affected solely by interest rates, the amount of money available for spending under the higher interest and inflation rates remains almost the same as under the more likely rates of 10 and 6 percent interest and inflation.

Under the low interest and inflation rates of 6 and 4 percent respectively, the amount of money available for spending in future years, future fund balances, and the distributions from the Permanent Fund are all substantially less than under the other interest and inflation rate scenarios.

Examples

Under the scenario of 10 percent interest and 6 percent inflation, Anchorage would receive $36 million in FY84, increasing every year to $99 million in FY 90. At the end of FY90, Anchorage's permanent fund would be approximately $500 million and Anchorage would have approximately $28 million dollars available for spending in FY90.

Under the high interest and inflation rate scenario, Anchorage's fund balance at the end of FY90 would fall to $369 million though it would still have approximately $28 million dollars to spend in that fiscal year. Under the low interest rate scenario, Anchorage's fund balance would fall to $286 million and have only $10.5 million to spend.

The pattern of declining funds repeats itself in the same proportions for communities of all sizes. For example, the Matanuska-Susitna Borough (population 13,746), would have a fund balance of $39 million in FY90 and have $2.2 million available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario, the fund balance would fall to $29 million but the amount available to spend would remain at about $2.2 million. Under the lower interest and inflation rate scenarios, the FY90 fund balance would fall to $22.5 million and the amount available to spend would drop to $833,000.

Similarly, in FY90 the City of Palmer (population 2,141), would have a fund balance of $6 million and have $349,000 available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario the fund balance would fall to $4.5 million but the amount available for spending would remain nearly the same at $345,000. Under the lower interest and inflation rate scenario the fund balance would fall to $3.5 million and the amount available to spend would fall to $130,000.

Finally, even very small communities, such as Tenakee Springs (population 138) would experience the same trends. In FY90, Tenakee Springs would have have a fund balance of $396,000 and have $22,500 available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario, Tenakee Springs would have a fund balance of $292,000 and have about $22,000 available for spending in FY90. Under the lower interest and inflation rate scenario, Tenakee Springs would have a fund balance of $225,000 in FY90 and have $8,000 available to spend in that year.

* * * *

We hope this summary is helpful. Please let us know if you have any additional questions.

LS

Permanent Fund

(164)
Lacher - Municipal Assistance

(201)
Zharoff - 5% interest

(245)
M.M. Miller Advisory Vote

- Longevity Bonus
- All interest into Permanent Fund
- Equal Benefit Retirement program

Alaska State Legislature

Room 104
State Capitol
Juneau, Alaska 99811

Pouch V
Juneau, Alaska 99811

House of Representatives
Committee on Community & Regional Affairs

TO: Representative Lacher

FROM: Staff

DATE: March 9, 1983

RE: HB164

The following data pertaining to the Alaska Permanent Fund was provided by the Department of Revenue/Research to the House Research Agency. The information is dated 1-6-83.

The following assumptions apply to the forecast indicated below:
- use 30th percentile of probabilities of income
- 6% inflation
- .1024% earnings
- 4% real rate of return

Fiscal Year	Perm Fund	Total Interest	Inflation Proofing	Available for Appropriation	
1984	3,943.75				(mid-year)
	4,203.06	403.84	252.2	151.66	(end-year)
1985	4,481.66				
	4,769.25	458.92	285.6	173.30	(end-year)
1986	5,072.55				
	5,384.84	519.43	23.1	196.34	(end-year)
1987	6,058.34				
	6,436.59	586.89	363.5	222.39	(end-year)
1988	6,814.83				
	7,236.93	659.11	408.9	250.22	(end-year)
1989	7,659.03				
	8,090.78	741.06	459.5	281.52	(end-year)
1990	8,522.52	828.50	511.40	317.15	

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The following data from the previous mentioned source, again uses the 30th percentile of probabilities, 10% interest return, and 6% inflation. The first column is State population estimates developed from Bureau of Census data. The second column is the projected dividend payment per person, in current dollars, under existing law. The third column is the individual dividend payment in 1981 dollars.

****

	I	II	III
1983	444.33	$1000.00	$881.68
1984	464.33	365.51	304.02
1985	484.68	251.06	197.00
1986	505.38	333.51	246.89
1987	526.44	409.06	285.67
1988	547.85	448.55	295.52
1989	569.61	489.82	304.45
1090	591.72 (thousands)	530.34	310.98

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Box 1210 602 Railroad Avenue
Cordova, Alaska 99574
Phone: (907) 424-3237
or 424-3238

"The Friendly City"

Good
Answer
✓ File

March 23, 1983

Representative Barbara Locher
Pouch V
Juneau, Alaska 99811

MAR 28 1983

Dear Representative ~~Locher~~ BARBARA:

I received your letter regarding HB 164 which you introducted to distribute Alaska permanent fund income to municipalities and unincorporated communities and repealing the permanent fund divident program.

I took your letter to the City Council meeting held last Monday, and they unanimously voted to support your bill.

The general comments were that these funds would then stay within the community and benefit everyone, plus supporting the State revenue and municipal assistance programs.

Sincerely,

Perry D. Lovett
City Manager

cc: Representative Peter Goll
Representative Richard Eliason

MAR 1 3 1983

Box 53
Willow, Alaska
March 11, 1983

answer

Hon. Barbara Lacher
House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Mrs. Lacher:

I understand the House is presently considering various bills on the Dividend Program, and if not too late, my husband and I would like to be numbered among those favoring its repeal. Letters to the Anchorage News seem to be predominantly for the program, but most of the people we've been talking to favor repeal, as we do. I must admit they are over 40, and some of our younger friends are the ones who want to keep the checks coming, and I believe a vote of the people would favor keeping the program, but that doesn't mean it's the best answer to the problem. Few people are going to refuse a handout, and as a former president once said, the average voter is incapable of considering the public good above his own. I believe this money belongs to the state as a whole and not to the people individually.

Second subject: Other benefits for Alaskans such as the Pioneer Home and the Longevity Program, now mentioned in the News as under scrutiny by the Legislature also. These programs benefit older people with reduced incomes when they most need help, and I know several people who stay in Alaska because of them. I think they are far more important than the Dividend Program and I hope the Legislature will find a way to continue them that satisfies the law.

Third: I hope if and when the matter arises you will all remember that poor old Willow still needs a new community building. The present one is a fire-trap, and we have no fire department either. If any place could use a little help in this regard, Willow sure could.

Sincerely,

Mary Lee Mayfield

Mary Lee Mayfield

STATE OF ALASKA
THE LEGISLATURE

FEB 9 1983

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M   February 9, 1983

SUBJECT: Distributions to municipalities and unincorporated communities (Work Order No. 13-0609)

TO: Representative Barbara Lacher

FROM: Linn H. Asper
Legislative Counsel

You have asked for a sectional analysis of your Work Order No. 13-0609, relating to distributions of Alaska permanent fund income to municipalities and unincorporated communities.

* Section 1 amends AS 37.13.145 to delete references to the reinvestment of the undistributed income account in the fund, because your proposal calls for all of the undistributed income to be distributed to municipalities and unincorporated communities. Some may be retained for the benefit of individual municipalities or unincorporated communities, but the income from such retained money will be credited to the named communities rather than to the undistributed income account.

* Section 2 contains amendments to AS 37.13 that are necessary to provide a distribution mechanism for the Alaska permanent fund income. Proposed AS 37.13.147 requires distribution of part of the permanent fund income to municipalities. Determination of the amount of the annual distribution to a municipality is made by multiplying the total amount to be distributed by a fraction representing the ratio of the population of the municipality to the total population of entities that are eligible for distributions. Population is calculated on the same basis set out in AS 29.88.015. The population of a city that is eligible for its own distribution and that is within a borough is excluded in calculating the population of the borough. A municipality that receives a distribution from the Alaska permanent fund must invest the money and then reinvest

25 percent of the earnings, using the remaining 75 percent for municipal purposes. A municipality may choose to leave its money in the Alaska permanent fund so that the commissioner of revenue can invest it for the municipality and distribute 75 percent of the income as if the municipality were investing the money itself. A municipality may reclaim its money upon proper notice. A municipality is defined as a general law or home rule city or borough, or a unified municipality.

Proposed AS 37.13.148 provides for distributions to unincorporated communities. Unincorporated communities are treated somewhat differently from municipalities in this legislation. An unincorporated community is a group of 25 or more people living as a social unit in the unorganized borough. This is the definition used in a previous distribution of state money in 1981 (Chapter 60, SLA 1981). An unincorporated community may only receive and invest its money if it is an entity that has the legal capacity to do so, as determined by the attorney general. If the unincorporated community does not have the legal capacity to invest the money, or if it does have the capacity, but chooses to leave its money in the Alaska permanent fund, the commissioner of revenue invests the money for the community and distributes 75 percent of the income from that investment to the community. Population and amounts to be distributed are determined in a manner similar to that established for municipalities.

* Section 3 repeals the permanent fund dividend distribution program in order to make Alaska permanent fund income available for the distributions to municipalities and unincorporated communities.

* Section 4 is a technical amendment to terminate the dividend fund now used to pay permanent fund dividends. Provisions are made in this section and in * Sec. 5 to insure that persons eligible for 1982 permanent fund dividends will receive those dividends.

* Section 6 deletes a cross-reference in Title 09 of the Alaska Statutes to the permanent fund dividend distribution program.

* Section 7 provides for an immediate effective date.

LHA:ljb

Alaska State Legislature

Room 104
State Capitol
Juneau, Alaska 99811

Pouch V
Juneau, Alaska 99811

House of Representatives
Committee on Community & Regional Affairs

TO: Representative Lacher

FROM: Staff

DATE: March 9, 1983

RE: HB164

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HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
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March 29, 1983

MEMORANDUM

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From: Leonard Steinberg, Research Staff L. S.

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* * * *

We hope this summary is helpful. Please let us know if you have any additional questions.

LS

CITY OF MC GRATH

P.O. BOX 57 MC GRATH, ALASKA 99627
PHONE (907) 524-3825

Read File & answer

March 21, 1983

The Honorable Barbara Lacher
Alaska House of Representative
Pouch V
Juneau, Alaska 99811

Dear Representative Lacher:

I have read your letter and HB-164 with great interest. I believe that the four points covered in your letter are adequately addressed in the bill. Passage of HB-164 would, in my opinion, be a service to the residents of Alaska for several reasons. First, it would approve the image of Alaska in the eyes of rest of the country. The distribution of $1,000 checks was a major mistake from a practical and political standpoint. Second, it would take the Permanent Fund Program out of the political arena. It is my understanding, that former Gov. Hammond saw one of the uses of the Permanent Fund Program as the beginning of a local tax base. Your approach is very similar but differs in that HB-164 could be used as an in lieu of tax program. Third, it would allow communities to decide how the Permanent Fund money was going to be used. This is very important. Each community has different needs at different times. Use of the Permanent Fund to meet those needs—as established locally is extremely important.

I found HB-164 interesting in another aspect. For the past few months, Tim Troll, City Mgr. of St. Marys, and I have been discussing a similar approach using municipal funds. Surplus municipal funds could be invested to maximize their return with the interest being used to underwrite specific local programs or services. You might want to consider a provision which would allow a municipality to invest additional funds in the Permanent Fund program under the same provisions outlined in HB-164.

Sincerely,

Robert S. Juettner
City Administrator

cc: Alaska Municipal League

CITY OF CORDOVA

Box 1210 602 Railroad Avenue
Cordova, Alaska 99574
Phone: (907) 424-3237
or 424-3238

"The Friendly City"

Good Answer √ File

March 23, 1983

Representative Barbara Locher
Pouch V
Juneau, Alaska 99811

MAR 29 1983

Dear Representative BARBARA ~~Locher~~:

I received your letter regarding HB 164 which you introducted to distribute Alaska permanent fund income to municipalities and unincorporated communities and repealing the permanent fund divident program.

I took your letter to the City Council meeting held last Monday, and they unanimously voted to support your bill.

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Sincerely,

Perry D. Lovett
City Manager

cc: Representative Peter Goll
Representative Richard Eliason

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 9, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff L. S.

Re: Distribution of Permanent Fund Dividends to Municipalities
Additional Information -- Research Request 83-23

During our meeting on the afternoon of February 4, you requested additional information on how to clarify the Permanent Fund language in AS 37.13 140 and 145. The information I obtained from Jim Rhode of the Alaska Permanent Fund, Milt Barker of the Division of Legislative Finance, and Lynn Asper of the Division of Legal Services is summarized below.

Jim Rhode

Jim Rhode has been involved in Alaska Permanent Fund legislation since the Fund's inception and is now the Permanent Fund Corporation's Research and Liaison Officer. Mr. Rhode first clarified that the Fund's Board of Trustees has not been and will not be concerned with how to spend the Fund's earnings. According to Mr. Rhode, the Trustees recognize that the existing language is confusing and their intent has been to attempt to clarify the law during the next legislative session. However, because of the legislature's considerable interest in the Fund this legislative session, the Permanent Fund Corporation may support clarifying legislation this year after all.

Mr. Rhode described the Corporation's preference for an entire rewrite of AS 37.13.140 and 145 clearly outlining the uses of Permanent Fund income. Mr. Rhode has suggested the gross income, excluding unrealized gains and losses, be used as the starting point from which is subtracted: (1) the cost of operating the Permanent Fund Corporation, and; (2) the amount to be reinvested necessary to compensate for inflation. According to Mr. Rhode, the funds remaining should be transferred to the undistributed income account and be available for distribution. Mr. Rhode has suggested that these policies be written in clear and nontechnical language and substituted for sections 140 and 145.

Currently there is some debate within the Permanent Fund Corporation as to whether or not the undistributed income account can be used for inflation-proofing. Jim Rhode argues that only if these funds are available for inflation-proofing during years when inflation exceeds income will the real value of the Permanent Fund be maintained. Despite Mr. Rhode's arguments, other knowledgeable individuals associated with the Permanent Fund Corporation disagree with his interpretation of existing law. Mr. Rhode supports clarification of the State's policy on this issue.

Jim Rhode also supports the existing law's procedures for determining the amount of money available for distribution on the basis of a five-year average. Mr. Rhode feels that smoothing out the spending of the Fund's real earnings will reduce the danger of dipping into the inflation-proofing mechanism and Fund principal for additional money.

Mr. Rhode did not have specific language to suggest at this time. However, I asked Mr. Rhode to respond to substituting "of the annual transfers and interest income to the undistributed income account" in place of "net income" after the word "average" in the second sentence of section 140. Mr. Rhode stated that this is a less complete rewrite than he would like to see, but that it essentially accomplishes the purpose of clarifying the legislation.

Milt Barker

Milt Barker has been with the Division of Legislative Finance for many years and is a recognized expert in the areas of public finance, budgeting, and revenue forecasting. Mr. Barker commented that repealing AS 43.23 will go a long way toward clarifying the existing law regarding Permanent Fund income. Mr. Barker also recommends a total rewrite of sections 140 and 145 of AS 37.13.

Milt Barker suggests defining the income available for spending from the Fund as the Fund's real income. If possible, Mr. Barker suggested defining real income according to the guidelines established by the FASB, the Financial Accounting Standards Board. (The FASB is the national organization that defines what are generally accepted accounting procedures.) I have asked Mr. Gerald Wilkerson, Director of the Division of Legislative Audit, to look into the FASB's guidelines for defining real income and will report these guidelines to you as soon as they are available.

Mr. Barker also suggested eliminating the undistributed income account and allocating the real income either to a specific program or allowing it to go back into the general fund. I asked Mr. Barker to comment on Jim Rhode's assertion that the undistributed income account should be available for inflation-proofing during years when inflation exceeds real income. Mr. Barker stated that an undistributed income account is not necessary to fully inflation-proof the Fund. According to Mr. Barker, his proposal, which defines income only as real income, would carry forward into a subsequent year any real loss, and earnings in subsequent years would be used to erase that loss.

Lynn Asper

I spoke with Mr. Lynn Asper of the Division of Legal Services about the existing law in sections 140 and 145. Mr. Asper agreed that the existing law is very difficult to understand. Mr. Asper declined to offer specific suggestions for clarifying the law because he felt unprepared to do so without additional review.

I asked Mr. Asper to comment on substituting "of the annual transfers and interest income to the undistributed income account" in place of the phrase "net worth" after the word "average" in section 140. Mr. Asper noted that this alteration would clarify the first part of the sentence but the last part of the sentence would remain unclear. After further discussion, I suggested the deletion of the phrase, "net income of the corporation for the fiscal year just ended plus" after the word "exceed" and Mr. Asper said such a deletion, in combination with the previously mentioned substitution, would clarify the sentence and the intent of the section.

* * * *

We hope this information is helpful to you. We plan to prepare the projections of Permanent Fund earnings and the funds available for spending within the next two weeks. Any additional information we obtain on clarifying the law will be passed on to you promptly. Please let us know if we can be of further assistance.

LS

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 4, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff L.S.

Re: Distribution of Permanent Fund Dividends to Municipalities
Research Request 83-23

Bob Harris of your staff requested a section-by-section analysis of the proposed legislation entitled "An Act providing for the distribution of Alaska permanent fund income to municipalities; and providing for an effective date." Additionally, we have been requested to calculate the earnings which would be available to municipalities under the proposal for the next four years. This memorandum provides the sectional analysis; the earnings calculations will be provided in a subsequent memorandum.

The proposed legislation's interaction with existing law may be unclear in certain sections. Our interpretation of the interaction between the proposed legislation and existing law is discussed below. Additionally, photocopies of the relevant sections of existing law are attached for your review.

We estimate that the earnings calculations can be completed by hand and delivered within one week for no more than 10 to 12 communities. Alternatively, within two weeks we can calculate the earnings for a larger number of communities with the use of a computer. Please let us know which of these alternatives you prefer.

Section 1

Section 1 of the proposed legislation, which amends A.S. 37.13.145, is intended to "inflation-proof" the Alaska Permanent Fund and provides for the disposition of the Fund's income. Under the proposed legislation, the inflation-proofing mechanism in the existing statute is retained; Section 1 requires that a portion of the income sufficient to compensate for inflation be transferred to the principal in order to maintain the Fund's real value or purchasing power.

Under existing law and in the proposed legislation, the income that remains after inflation-proofing is transferred to the Undistributed Income Account (UIA). The effective language is, "The balance of the net income as defined in AS 37.13.140 shall be transferred to the undistributed income account in the Alaska permanent fund." The proposed legislation adds to the end of the existing sentence quoted above, "for annual distribution under AS 37.13.147 and 37.13.148.

The proposed legislation's new language may be ambiguous. The language could be interpreted to mean that the total income transferred to the UIA each year is to be distributed annually. Alternatively, the language could be interpreted to mean that only the five-year average of income is annually distributed in conformance with section 140.

Lynn Asper, the Legal Services attorney that drafted the legislation told me that it was his intention to retain the five-year averaging requirement of section 140. This intention can be clarified with the addition of the words "according to the five-year averaging formula of AS 37.13.140 and" between "distribution" and "under" on lines ~~19~~ 21 and ~~20~~ 22, page 1 of the proposed legislation.

Though the proposed legislation refers to section 140, the meaning of those references may be ambiguous because sections 140 and 145 do not work well together. For example, section 140 states that the income available for distribution is the five-year average of net income. However, section 145 does not transfer net income to the undistributed income account but transfers net income minus the income necessary to offset inflation. The result is that section 140 makes far more income available for distribution than is ever transferred to the undistributed income account. Mr. David Rose and Mr. Jim Rhode, both with the Alaska Permanent Fund Corporation, agreed that it is difficult to determine the meanings of sections 140 and 145 as they are currently written. However, Mr. Rose pointed out that the averaging of the amount of money available for distribution from the UIA moderates fluctuations that might occur if the amount of money available for distribution is based on annual transfers to the undistributed income account. Section 140 could be clarified with an amendment deleting "net income" after the word "average" and substituting "of the annual transfers and interest income to the undistributed income account."

Section 2

Section 2 of the proposed legislation amends AS 37.13 by adding two new sections 147 and 148 entitled, "Distribution To Municipalities" and "Distribution To Unincorporated Communities."

Sec. 37.13.147 DISTRIBUTION TO MUNICIPALITIES. Subsection (a) states that a portion of the money transferred to the undistributed income account shall be annually distributed to or invested for the municipalities of the state. The word portion may be read in numerous different ways including: (1) a portion of the amount transferred to the UIA; or (2) a portion of what is available for distribution. Subsection (a) also refers to distributing money that is transferred to the UIA rather than money that is available for distribution from the UIA, casting doubt once again on whether all of the funds transferred to the UIA are to be distributed or only some portion of those funds, presumably the portion available for distribution according to section 140.

Legal Services attorney Lynn Asper indicated to me that "portion" was intended to refer to the dividing up of the funds between municipalities and unincorporated communities. However, this point has already been made in section 145 where it says the funds are to be annually distributed under sections 147 and 148 which includes both municipalities and unincorporated communities. Additionally, Mr. Asper previously indicated that he intended only the five-year average to be available for distribution.

As "portion" may not be necessary and may be interpreted as ambiguous, it may be desirable to delete this term from the proposed legislation. Subsection (a) may be further clarified by deleting the term "transferred" and substituting the term "available for distribution" so that the sentence would read, "The money that is available for distribution in the undistributed income account...."

Subsection (b) outlines a population-based formula for determining how much of the total amount available for distribution is to be made available to each municipality. The formula distributes the funds on a per capita basis. Population figures to be used are predominantly those developed by the U.S. Bureau of the Census. One issue in subsection (b) that may be ambiguous, however, is the meaning of "eligible" in the phrase "A person who is eligible to vote...." This issue is discussed in further detail in Research Request 83-41, "Effect of Population Counting Method in SSHR 42" which you will receive very soon.

Subsection (b) also provides for funds to be distributed to boroughs on a per capita basis. The distribution formula subtracts the population of each city located within the boundaries of the borough from the total population of that borough. The effect of the provision is to avoid double counting of individuals that live in both a city and a borough. The population of unincorporated communities within a borough do not have to be subtracted from the borough population because unincorporated communities as defined in subsection (e) can exist only in the unorganized borough.

Subsection (c) establishes that the funds received by municipalities under this law are to be invested under the same guidelines that apply to Alaska Permanent Fund investments. Subsection (c) also states that 25 percent of the earnings from those investments shall be reinvested; the remaining 75 percent of the earnings may be used for any municipal purpose.

Subsection (d) allows municipalities to leave their funds with the Permanent Fund Corporation to be invested in the name of the municipality. Under this option, the Permanent Fund Corporation is required to distribute to the municipalities choosing this option 75 percent of the income earned on the funds invested in the name of the municipality involved, which can then be spent for any municipal purpose. Twenty-five percent of the income earned must be reinvested by the Permanent Fund Corporation in the funds managed in the name of municipalities. Municipalities are also allowed to withdraw their funds from the Permanent Fund's management with 90 days notice.

Subsection (e) defines municipality as a general law or home rule city, a general law or home rule borough, or a unified municipality organized under the laws of Alaska. An unincorporated community is defined as an unincorporated place in the unorganized borough in which 25 or more persons reside as a social unit.

Sec. 37.13.148 DISTRIBUTION TO UNINCORPORATED COMMUNITIES. Subsection (a) establishes that a portion of the money transferred to the undistributed income account shall be annually distributed to or invested for unincorporated communities of the state. The comments made earlier on section 147 (a) also apply to subsection (a) of section 148.

Subsection (b) outlines a population-based formula for determining how much of the total amount available for distribution is to be made available to each unincorporated community. The formula distributes the funds on a per capita basis. The population of unincorporated communities is to be determined by the latest figures of the U.S. Bureau of the Census.

Subsection (c) provides for the distribution of funds to unincorporated communities if the attorney general determines that communities have the legal capacity to invest the money received. If the attorney general determines that an unincorporated community does not have the legal capacity to invest the funds to which it is entitled, then the funds are to be invested in the name of that community by the Permanent Fund Corporation. Those communities entitled to receive their funds may opt to have their funds invested for them by the Permanent Fund Corporation. In all cases, the investments must follow the guidelines established for Permanent Fund investments; 25 percent of the earnings must be reinvested and 75 percent of the earnings are available to be spent for any municipal purpose.

Subsection (d) provides the same definitions of municipality and unincorporated community as in subsection (e) of section 147.

Section 3

Section 3 of the proposed legislation repeals AS 43.23, the Alaska Permanent Fund Dividend program.

Section 4

Section 4 of the proposed legislation transfers money and other assets held in the dividend fund, except for what is needed to pay 1982 dividends, to the undistributed income account of the Alaska permanent fund.

Section 5

Section 5 of the proposed legislation makes the repeal of the dividend program retroactive to January 1, 1983.

Section 6

Section 6 of the proposed legislation deletes references to lists of persons who filed for Alaska permanent fund dividends from the existing law describing how to develop a list of potential jurors for trials.

Section 7

Section 7 of the proposed legislation provides for the new law to take effect immediately in accordance with AS 01.10.070(c).

* * * *

We hope this information is helpful to you. Please let us know if we can be of further assistance.

LS

Attachment

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 9, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff L. S.

Re: Distribution of Permanent Fund Dividends to Municipalities
Additional Information -- Research Request 83-23

During our meeting on the afternoon of February 4, you requested additional information on how to clarify the Permanent Fund language in AS 37.13.140 and 145. The information I obtained from Jim Rhode of the Alaska Permanent Fund, Milt Barker of the Division of Legislative Finance, and Lynn Asper of the Division of Legal Services is summarized below.

Jim Rhode

Jim Rhode has been involved in Alaska Permanent Fund legislation since the Fund's inception and is now the Permanent Fund Corporation's Research and Liaison Officer. Mr. Rhode first clarified that the Fund's Board of Trustees has not been and will not be concerned with how to spend the Fund's earnings. According to Mr. Rhode, the Trustees recognize that the existing language is confusing and their intent has been to attempt to clarify the law during the next legislative session. However, because of the legislature's considerable interest in the Fund this legislative session, the Permanent Fund Corporation may support clarifying legislation this year after all.

Mr. Rhode described the Corporation's preference for an entire rewrite of AS 37.13.140 and 145 clearly outlining the uses of Permanent Fund income. Mr. Rhode has suggested that gross income, excluding unrealized gains and losses, be used as the starting point from which is subtracted: (1) the cost of operating the Permanent Fund Corporation, and; (2) the amount to be reinvested necessary to compensate for inflation. According to Mr. Rhode, the funds remaining should be transferred to the undistributed income account and be available for distribution. Mr. Rhode has suggested that these policies be written in clear and nontechnical language and substituted for sections 140 and 145.

Currently there is some debate within the Permanent Fund Corporation as to whether or not the undistributed income account can be used for is not necessary to fully inflation-proof the Fund. According to Mr. Barker, his proposal, which defines income only as real income, would carry forward into a subsequent year any real loss, and earnings in subsequent years would be used to erase that loss.

Lynn Asper

I spoke with Mr. Lynn Asper of the Division of Legal Services about the existing law in sections 140 and 145. Mr. Asper agreed that the existing law is very difficult to understand. Mr. Asper declined to offer specific suggestions for clarifying the law because he felt unprepared to do so without additional review.

I asked Mr. Asper to comment on substituting "of the annual transfers and interest income to the undistributed income account" in place of the phrase "net worth" after the word "average" in section 140. Mr. Asper noted that this alteration would clarify the first part of the sentence but the last part of the sentence would remain unclear. After further discussion, I suggested the deletion of the phrase, "net income of the corporation for the fiscal year just ended plus" after the word "exceed" and Mr. Asper said such a deletion, in combination with the previously mentioned substitution, would clarify the sentence and the intent of the section.

* * * *

We hope this information is helpful to you. We plan to prepare the projections of Permanent Fund earnings and the funds available for spending within the next two weeks. Any additional information we obtain on clarifying the law will be passed on to you promptly. Please let us know if we can be of further assistance.

LS

inflation-proofing. Jim Rhode argues that only if these funds are available for inflation-proofing during years when inflation exceeds income will the real value of the Permanent Fund be maintained. Despite Mr. Rhode's arguments, other knowledgeable individuals associated with the Permanent Fund Corporation disagree with his interpretation of existing law. Mr. Rhode supports clarification of the State's policy on this issue.

Jim Rhode also supports the existing law's procedures for determining the amount of money available for distribution on the basis of a five-year average. Mr. Rhode feels that smoothing out the spending of the Fund's real earnings will reduce the danger of dipping into the inflation-proofing mechanism and Fund principal for additional money.

Mr. Rhode did not have specific language to suggest at this time. However, I asked Mr. Rhode to respond to substituting "of the annual transfers and interest income to the undistributed income account" in place of "net income" after the word "average" in the second sentence of section 140. Mr. Rhode stated that this is a less complete rewrite than he would like to see, but that it essentially accomplishes the purpose of clarifying the legislation.

Milt Barker

Milt Barker has been with the Division of Legislative Finance for many years and is a recognized expert in the areas of public finance, budgeting, and revenue forecasting. Mr. Barker commented that repealing AS 43.23 will go a long way toward clarifying the existing law regarding Permanent Fund income. Mr. Barker also recommends a total rewrite of sections 140 and 145 of AS 37.13.

Milt Barker suggests defining the income available for spending from the Fund as the Fund's real income. If possible, Mr. Barker suggested defining real income according to the guidelines established by the FASB, the Financial Accounting Standards Board. (The FASB is the national organization that defines what are generally accepted accounting procedures.) I have asked Mr. Gerald Wilkerson, Director of the Division of Legislative Audit, to look into the FASB's guidelines for defining real income and will report these guidelines to you as soon as they are available.

Mr. Barker also suggested eliminating the undistributed income account and allocating the real income either to a specific program or allowing it to go back into the general fund. I asked Mr. Barker to comment on Jim Rhode's assertion that the undistributed income account should be available for inflation-proofing during years when inflation exceeds real income. Mr. Barker stated that an undistributed income account

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

FEB 9 1983

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

M E M O R A N D U M

February 9, 1983

SUBJECT: Distributions to municipalities and unincorporated communities (Work Order No. 13-0609)

TO: Representative Barbara Lacher

FROM: Linn H. Asper
Legislative Counsel

You have asked for a sectional analysis of your Work Order No. 13-0609, relating to distributions of Alaska permanent fund income to municipalities and unincorporated communities.

* Section 1 amends AS 37.13.145 to delete references to the reinvestment of the undistributed income account in the fund, because your proposal calls for all of the undistributed income to be distributed to municipalities and unincorporated communities. Some may be retained for the benefit of individual municipalities or unincorporated communities, but the income from such retained money will be credited to the named communities rather than to the undistributed income account.

* Section 2 contains amendments to AS 37.13 that are necessary to provide a distribution mechanism for the Alaska permanent fund income. Proposed AS 37.13.147 requires distribution of part of the permanent fund income to municipalities. Determination of the amount of the annual distribution to a municipality is made by multiplying the total amount to be distributed by a fraction representing the ratio of the population of the municipality to the total population of entities that are eligible for distributions. Population is calculated on the same basis set out in AS 29.88.015. The population of a city that is eligible for its own distribution and that is within a borough is excluded in calculating the population of the borough. A municipality that receives a distribution from the Alaska permanent fund must invest the money and then reinvest

25 percent of the earnings, using the remaining 75 percent for municipal purposes. A municipality may choose to leave its money in the Alaska permanent fund so that the commissioner of revenue can invest it for the municipality and distribute 75 percent of the income as if the municipality were investing the money itself. A municipality may reclaim its money upon proper notice. A municipality is defined as a general law or home rule city or borough, or a unified municipality.

Proposed AS 37.13.148 provides for distributions to unincorporated communities. Unincorporated communities are treated somewhat differently from municipalities in this legislation. An unincorporated community is a group of 25 or more people living as a social unit in the unorganized borough. This is the definition used in a previous distribution of state money in 1981 (Chapter 60, SLA 1981). An unincorporated community may only receive and invest its money if it is an entity that has the legal capacity to do so, as determined by the attorney general. If the unincorporated community does not have the legal capacity to invest the money, or if it does have the capacity, but chooses to leave its money in the Alaska permanent fund, the commissioner of revenue invests the money for the community and distributes 75 percent of the income from that investment to the community. Population and amounts to be distributed are determined in a manner similar to that established for municipalities.

<u>* Section 3</u> repeals the permanent fund dividend distribution program in order to make Alaska permanent fund income available for the distributions to municipalities and unincorporated communities.

<u>* Section 4</u> is a technical amendment to terminate the dividend fund now used to pay permanent fund dividends. Provisions are made in this section and in * Sec. 5 to insure that persons eligible for 1982 permanent fund dividends will receive those dividends.

<u>* Section 6</u> deletes a cross-reference in Title 09 of the Alaska Statutes to the permanent fund dividend distribution program.

<u>* Section 7</u> provides for an immediate effective date.

LHA:ljb

STATE OF ALASKA

Bill Sheffield, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K – STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

February 16, 1983

FEB 18 1983

The Honorable Barbara Lacher
Representative
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Re: House Bill 164

Dear Representative Lacher:

This is in response to your memorandum dated February 9 which asked the question whether the Metlakatla Indian Community and Alaska Native villages would be eligible for distribution of money under H.B. 164.

Section 37.13.148(a) of H.B. 164 provides for distribution of money to "unincorporated communities". Section 37.13.148(d) defines "unincorporated community" to mean "a place in the unorganized borough, not incorporated as a municipality, in which 25 or more persons reside as a social unit".

This is to advise you that the Metlakatla Indian Community and Alaska Native villages in which 25 or more persons reside as a social unit are within the definition of "unincorporated community" of section 37.13.148(d). Further, there is no reason under state law for excluding the Metlakatla Indian Community or Alaska Native villages from benefits under the statute. It has been the consistent position of this office that the state may provide grants to Alaska Native villages so long as the grant recipients do not discriminate on the basis of race in the administration of the grant. See 1981 Inf. Op. Att'y Gen. (April 27, J-66-335-81. You may also wish to consider a waiver of sovereign immunity by the Alaska Native village and the Metlakatla Indian

Community as a condition of the distribution of money in order to avoid any problem with enforcement of the grant of money. See Native Village of Eyak v. GC Contractors, Alaska Supreme Court, No. 2601 (January 14, 1983).

Very truly yours,

NORMAN C. GORSUCH
ATTORNEY GENERAL

By: Robert E. Price

Robert E. Price
Assistant Attorney General

REP/jb

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

March 3, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff

Re: Distribution of Permanent Fund Dividends to Municipalities
Research Request 82-23 -- Additional Information

On February 9 you requested additional information on how to clarify the statutory provisions for retaining and distributing Permanent Fund earnings. Additional discussions I have had with Dave Rose and Jim Rhode of the Permanent Fund, and Gerald Wilkerson of the Division of Legislative Audit, are summarized below.

Comments by Dave Rose

Alaska Statute 37.13.145 requires the use of a "nationally recognized index" in determining the inflation-proofing requirements of the Permanent Fund. However, Mr. Rose pointed out that there is considerable variation between indexes and the law does not specify which index is to be used. Last year, for example, the consumer price index for Anchorage, as calculated by the U.S. government, was about one-half the national consumer price index. Mr. Rose recommends requiring that the same index be used for inflation-proofing that the State chooses to use for its index-based spending; in particular he suggested that the Permanent Fund use the same index that is used for Alaska's new spending limit which is similarly required to use a federal index to determine the inflation rate.

Mr. Rose also discussed the advisability of retaining the five-year averaging mechanism to smooth out the spending of Permanent Fund earnings. He noted that Fund managers are more comfortable with smooth as opposed to erratic spending because they fear that erratic spending will threaten the integrity of the Fund.

Last, Mr. Rose commented on the vagueness of the law concerning the use of the undistributed income account (UIA) for inflation-proofing. Currently there are two schools of thought on this issue; one group interprets the law so as to allow use of UIA for inflation-proofing and the other school reaches the opposite conclusion. Dave Rose would prefer to be able to use the UIA for inflation-proofing but, regardless of the policy decision, supports new legislation to clarify this issue.

Comments by Jim Rhode

Mr. Rhode expressed concern that HB 164 could result in substantial economic inefficiencies. He raised three issues related to small-scale versions of the Permanent Fund. First, the set-up and transaction costs associated with any investment are relatively more costly for small investments than for large investments. Second, the small funds would lack the ability of larger funds to diversify and maximize the balance of risk and return. Last, investor inexperience could result in poor fund performance. Jim Rhode would be happy to discuss HB 164 with you at any time; he can be contacted at 465-2350.

Comments by Gerald Wilkerson

As mentioned in my memorandum to you of February 9, Gerald Wilkerson, Director of the Division of Legislative Audit, has prepared excerpts from Accounting Standards by the Financial Accounting Standards Board (FASB) related to the definition of real income. A copy of this material is enclosed with this memorandum.

The FASB material indicates that there are accounting methods which reflect the real value of monetary assets in terms of purchasing power. Though additional analysis may be necessary, it appears that the Permanent Fund's financial statements could reflect both the impact of inflation and distinguish between nominal and real income with the use of the FASB accounting guidelines.

Additional Observations

I spoke with Bob Harris of your office regarding the fact that HB 164 does not specify the timing of payments to municipalities or when the municipalities can use their interest income. The amount of money available for municipal spending in future years is affected by whether payments occur during the fiscal year in which they are earned or only at the conclusion of the fiscal year. HB 164 as it is currently written could be interpreted either way. In accordance with Bob Harris' suggestion, our projections of the amount of money that will be available for distribution and spending will be based on the conservative assumptions that Permanent Fund earnings are distributed soon after the beginning of the State's fiscal year, and that communities will spend 75 percent of the earnings from the prior fiscal year.

* * * *

We hope this information is useful to you. The remaining portion of this research request, projecting the distributions and earnings of funds in various municipalities and communities, will be sent to you as soon as the project is completed.

LS

Attachments

CHANGING PRICES: REPORTING THEIR EFFECTS IN FINANCIAL REPORTS — SECTION C27

Sources: FASB Statement 33; FASB Statement 39; FASB Statement 40; FASB Statement 41; FASB Statement 46; FASB Statement 54; FASB Technical Bulletin 79-8; FASB Technical Bulletin 81-4

Summary

This section [redacted] to provide information about effects of changing prices as [redacted] in their published annual reports.

The information to be provided for the current fiscal year includes:

a. Income from continuing operations adjusted both for effects of general inflation and for effects of specific price changes
b. The purchasing power gain or loss on net monetary items; the current cost of inventory and property, plant, and equipment at the end of the fiscal year and changes in those current costs, and measures of net assets based on adjustments for general inflation and for specific price changes

This section also requires presentation of selected financial information for each of the last five years expressed in constant dollars. Information to be presented in the summary includes net sales, dividends and market price per share of common stock, the excess of increases in specific prices over increases in the general price level, the gain from the decline in purchasing power of net amounts owed, and income from continuing operations (in the aggregate and per share) and net assets adjusted for general inflation and for specific price changes.

The information to be provided is to be accompanied by explanations of its significance in the circumstances of the reporting enterprise.

[Note: Enterprises that elect to apply Section F60, "Foreign Currency Translation," before its effective date should refer to paragraph F60.153.]

Applicability and Scope

.101 The requirements of this section apply to public enterprises [FAS33, ¶23] except for investment companies as defined in Section 3 of the Investment Company Act of 1940, as amended, [FAS54, ¶3] that prepare their primary financial statements in U.S. dollars and in accordance with U.S. generally accepted accounting principles and that have, at the beginning of the fiscal year for which financial statements are being presented, either:

a. Inventories and property, plant, and equipment[1] (before deducting accumulated depreciation, depletion, and amortization) amounting in aggregate to more than $125 million
b. Total assets amounting to more than $1 billion (after deducting accumulated depreciation)

Both amounts shall be measured in accordance with generally accepted accounting principles as reported in the primary financial statements (consolidated if applicable) of the enterprise. [FAS33, ¶23] [(Refer to paragraphs .501 through .504 as to the applicability of this section to certain brokers and dealers in securities.)]

.102 The requirements of this section do not apply, during the year of a business combination accounted for as a pooling of interests, to an enterprise created by the pooling of two or more enterprises, none of which individually satisfies the size test described in paragraph .101. [FAS33, ¶24]

.103 Nonpublic enterprises and enterprises that do not meet the size test in paragraph .101 [are encouraged] to present the information called for by this section. [FAS33, ¶25]

.104 This section does not change the standards of financial accounting and reporting used for the preparation of the primary financial statements of the enterprise. [FAS33, ¶26]

.105 The information required by this section shall be presented as [redacted] in any published annual report that contains the primary financial statements of the enterprise except that the information need not be presented in an interim financial report. The information required by this section need not be presented for segments of a business enterprise although such presentations are encouraged. [FAS33, ¶27]

.106 An enterprise that presents consolidated financial statements shall present the information required by this section on the same consolidated basis. The information required by this section need not be presented separately for a parent company, an investee enterprise, or other enterprise in any financial report that includes the results for that enterprise in consolidated financial statements. [FAS33, ¶28]

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[1]For the purposes of this section, except where otherwise provided, inventory and property, plant, and equipment shall include land and other natural resources and capitalized leasehold interests but *not* goodwill or other intangible assets. [FAS33, ¶23, fn1]

Requirements for Supplementary Information

.107 An enterprise is required to disclose:

[redacted] (refer to paragraphs .117 through .124)

[redacted] (refer to paragraphs .125 through .128)

The [redacted] [FAS33, ¶29]

.108 An enterprise is required to disclose:

a. Information on i[redacted]s for the current fiscal year on a [redacted] (refer to paragraphs .129 through .145)
b. The current cost amounts of inventory and property, plant, and equipment at the end of the current fiscal year (refer to paragraph .129)
c. [redacted] of inventory and property, plant, and equipment, net of inflation (refer to paragraphs .134 and .135)

The increases or decreases in current cost amounts shall *not* be included in income from continuing operations. [FAS33, ¶30]

.109 In some circumstances, there may be no material difference between the amount of income from continuing operations on a historical cost/constant dollar basis and the amount of income from continuing operations on a current cost basis. In those circumstances, the current cost information listed in paragraph .108 need not be disclosed for the fiscal year concerned, but the enterprise is required to state, in a note to the supplementary disclosures, the reason for the omission of the information. [FAS33, ¶31]

.110 Information on income from continuing operations (on a historical cost/constant dollar basis or on a current cost basis) may be presented either in a *statement format* (disclosing revenues, expenses, gains, and losses) or in a *reconciliation format* (disclosing adjustments to the income from continuing operations that is shown in the primary income statement). Whichever format is used, such information shall disclose, unless they are immaterial, the amounts of or adjustments to cost of goods sold, depreciation, depletion, and amortization expense and (in the case of historical cost/constant dollar income from continuing operations) reductions of the historical cost amounts of inventory, property, plant, and equipment to lower recoverable amounts as required by paragraph .122. Formats for the presentation of the supplementary information are illustrated in Exhibits 149A through 149C. [FAS33, ¶32]

.111 If depreciation expense has been allocated among various expense categories in the supplementary computations of income from continuing operations (for example, among cost of goods sold and other functional expenses), the aggregate amount of depreciation expense, on both a historical cost/constant dollar basis and a current cost basis, shall be disclosed in a note to the supplementary information. [FAS33, ¶33]

.112 An enterprise shall disclose, in notes to the supplementary information:

a. The principal types of information used to calculate the current cost of inventory, property, plant, and equipment, [FAS33, ¶34] **mineral resource assets,** [FAS39, ¶7] cost of goods sold, and depreciation, depletion, and amortization expense (refer to paragraph .140)
b. Any differences between (1) the depreciation methods, estimates of useful lives, and salvage values of assets used for calculations of historical cost/constant dollar depreciation and current cost depreciation and (2) the methods and estimates used for calculations of depreciation in the primary financial statements (refer to paragraph .142)
c. The exclusion from the computations of supplementary information of any adjustments to or allocations of the amount of income tax expense in the primary financial statements (refer to paragraph .133) [FAS33, ¶34]

.113 An enterprise is required to disclose the following information for each of its [redacted] (refer to paragraphs .146 and .147):

[redacted]

(2) Income per common share from continuing operations

[redacted]

[redacted] (except for individual years in which the information was excluded from the current year disclosures in accordance with paragraph .109)

[redacted]

(2) Income per common share from continuing operations

[redacted]

(4) Increases or decreases in the current cost amounts of inventory and property, plant, and equipment, net of inflation

[redacted]

(2) Cash dividends declared per common share

(3) Market price per common share at fiscal year-end

[redacted]

[redacted] (refer to paragraphs .118 and .119). [FAS33, ¶35] If an enterprise chooses to state net assets, in the five-year summary, at amounts computed from comprehensive financial statements prepared on a historical cost/constant dollar basis or on a **current cost/constant dollar** basis, that fact shall be disclosed in a note to the five-year summary (refer to paragraph .147). [FAS33, ¶36]

114. Enterprises that own mineral reserves other than oil and gas[2] shall disclose the following information[3] for each of their five most recent fiscal years:

a. Estimates of significant quantities of proved, or proved and probable (whichever is used for cost amortization purposes) mineral reserves, other than oil and gas, at the end of the year, or at the most recent date during the year for which estimates can be made. If estimates are not made as of the end of the year, the disclosures shall indicate the dates for which they apply.
b. The estimated quantity, expressed in physical units or in percentages of reserves, of each mineral product that is recoverable in significant commercial quantities if the mineral reserves included under paragraph .114(a) include deposits containing one or more significant mineral products.
c. The quantities of each significant mineral produced during the year. If the mineral reserves included under paragraph .114(a) are ores that are milled or similarly processed, the quantity of each significant mineral product produced by the milling or similar process also shall be disclosed.
d. The quantity of significant proved, or proved and probable, mineral reserves purchased or sold in place during the year.
e. For each significant mineral product, the average market price, or for mineral products transferred within an enterprise, the equivalent market price prior to use in a manufacturing process. [FAS39, ¶13]

.115 Enterprises shall provide, in their financial reports, explanations of the information disclosed in accordance with this section and discussions of its significance in the circumstances of the enterprise. [FAS33, ¶37]

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[2]Quantity disclosures for oil and gas reserves are required by Section Oi5, "Oil and Gas Industry." [FAS39, ¶13, fn5]

[3]In determining the quantities to be reported in conformity with paragraph .114:

a. If the enterprise issues consolidated financial statements, 100 percent of the quantities attributable to the parent company and 100 percent of the quantities attributable to its consolidated subsidiaries (whether or not wholly owned) shall be included.
b. If the enterprise's financial statements include investments that are proportionately consolidated, the enterprise's quantities shall include its proportionate share of the investee's quantities.
c. If the enterprise's financial statements include investments that are accounted for by the equity method, the investee's quantities shall not be included in the disclosures of the enterprise's quantities. However, the enterprise's (investor's) share of the investee's quantities of reserves shall be reported separately, if significant. [FAS39, ¶14]

[A format that may be used for this presentation is illustrated in paragraph .150.]

.116 The disclosures summarized in paragraphs .107 through .115 are required by this section. Enterprises are encouraged to provide additional information to help users of financial reports understand the effects of changing prices on the activities of the enterprise. [FAS33, ¶38]

Historical Cost/Constant Dollar Measurements

.117 The index used to compute information on a constant dollar basis shall be the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the U.S. Department of Labor.[4] [FAS33, ¶39]

.118 An enterprise that presents the minimum historical cost/constant dollar information required by this section shall restate inventory, property, plant, and equipment, cost of goods sold, depreciation, depletion, and amortization expense and any reductions of the historical cost amounts of inventory, property, plant, and equipment to lower recoverable amounts (refer to paragraph .122) in constant dollars represented by the average level over the fiscal year of the Consumer Price Index for All Urban Consumers. Other financial statement elements need not be restated. An enterprise that chooses to present comprehensive financial statements on a historical cost/constant dollar basis may measure the components of those statements either in average-for-the-year constant dollars or in end-of-year constant dollars. [FAS33, ¶40]

119. If the level of the Consumer Price Index at the end of the year and the data required to compute the average level of the index over the year have not been published in time for preparation of the annual report, they may be estimated by referring to published forecasts based on economic statistics or by extrapolation based on recently reported changes in the index. [FAS33, ¶41]

.120 Inventory and property, plant, and equipment (for computation of the amount of net assets at the end of the current fiscal year for inclusion in the five-year summary of selected financial data [refer to paragraph .113(b)(3)]), cost of goods sold, and depreciation, depletion, and amortization expense shall be measured at their historical cost/constant dollar amounts or lower recoverable amounts. Inventories may need to be reclassified as monetary assets at the date of the use on or commitment to a contract (refer to paragraphs .151 and [.505 through .520]). [FAS33, ¶42]

.121 Measurements of historical cost/constant dollar amounts shall be computed by multiplying the components of the historical cost/nominal dollar measurements by the average level of the Consumer Price Index for the current fiscal year

[4] The index is published in *Monthly Labor Review*. Those desiring prompt and direct information may subscribe to the Consumer Price Index (CPI) press release mailing list of the Department of Labor. [FAS33, ¶39, fn2]

(or the level of the index at the end of the year if comprehensive financial statements are presented) and dividing by the level of the index at the date on which the measurement of the associated asset was established (that is, the date of acquisition or the date of any measurement not based on historical cost). Those measurements may be restated in base-year dollars for inclusion in the five-year summary (refer to paragraph .146). [FAS33, ¶43]

.122 If it is necessary to reduce the measurements of inventory and property, plant, and equipment during the current fiscal year from historical cost/constant dollar amounts to lower recoverable amounts, the reduction shall be deducted in the computation of income from continuing operations. [FAS33, ¶44]

.123 Except as provided in paragraphs .120 through .122 and paragraph .142, the accounting principles used in computing historical cost/constant dollar income shall be the same as those used in computing historical cost/nominal dollar income. Only the measuring unit is changed. [FAS33, ¶45]

.124 Inventory, property, plant, and equipment, and related cost of goods sold and depreciation, depletion, and amortization expense that are originally measured in units of a foreign currency shall first be translated into U.S. dollars in accordance with generally accepted accounting principles and then restated in constant dollars in accordance with the provisions of paragraph .121. [FAS33, ¶46]

Purchasing Power Gain or Loss on Net Monetary Items

.125 A monetary asset is money or a claim to receive a sum of money the amount of which is fixed or determinable without reference to future prices of specific goods or services. A monetary liability is an obligation to pay a sum of money the amount of which is fixed or determinable without reference to future prices of specific goods or services. The economic significance of monetary assets and liabilities (monetary items) depends heavily on the general purchasing power of money, although other factors, such as the credit worthiness of debtors, may affect their significance. [FAS33, ¶47]

.126 All assets and liabilities that are not monetary are nonmonetary. The economic significance of nonmonetary items depends heavily on the value of specific goods and services. Nonmonetary assets include (a) goods held primarily for resale or assets held primarily for direct use in providing services for the business of the enterprise, (b) claims to cash in amounts dependent on future prices of specific goods or services, and (c) residual rights such as goodwill or equity interests. Nonmonetary liabilities include (a) obligations to furnish goods or services in quantities that are fixed or determinable without reference to changes in prices or (b) obligations to pay cash in amounts dependent on future prices of specific goods or services. [FAS33, ¶48]

.127 Guidance on the classification of balance sheet items as monetary or nonmonetary is set forth in paragraphs .151 [and .505 through .520]. [FAS33, ¶49]

.128 The purchasing power gain or loss on net monetary items shall be equal to the net gain or loss found by restating in constant dollars the opening and closing balances of, and transactions in, monetary assets and liabilities. An enterprise that presents comprehensive supplementary financial statements on a historical cost/constant dollar basis may measure the purchasing power gain or loss in average-for-the-year constant dollars or in end-of-year constant dollars; other enterprises shall measure the purchasing power gain or loss in average-for-the-year dollars. An acceptable approximate method of calculating the purchasing power gain or loss on net monetary items is illustrated in paragraphs .173 and .174. [FAS33, ¶50]

Current Cost Measurements

.129 The current cost amounts of inventory and property, plant, and equipment shall be measured as follows:

a. Inventories at current cost or lower recoverable amount (refer to paragraphs .136 through .145) at the measurement date. [FAS33, ¶51]
b. Property, plant, and equipment [including mineral resource assets] at the current cost or lower recoverable amount (refer to paragraphs .136 through .145) of the assets' remaining service potential at the measurement date. (This provision is qualified by paragraph .131 in respect of [timberlands and growing timber,] income-producing real estate, [and motion picture films].) [FAS39, ¶10]
c. Resources used on partly completed contracts shall be measured at current cost or lower recoverable amount at the date of use on or commitment to the contracts. [FAS33, ¶51]

.130 An enterprise that presents the minimum information required by this section on current cost income from continuing operations shall measure the amounts of cost of goods sold and depreciation, [FAS33, ¶52] depletion, [FAS39, ¶11] and amortization expense as follows: [FAS33, ¶52]

a. Cost of goods sold shall be measured at current cost or lower recoverable amount (refer to paragraphs .136 through .145) at the date of sale or at the date on which resources are used on or committed to a specific contract. [FAS33, ¶52a]
b. Depreciation, depletion, and amortization expense of property, plant, and equipment [including mineral resource assets] shall be measured on the basis of the average current cost or lower recoverable amount (refer to paragraphs

.136 through .145) of the assets' service potential during the period of use. (This provision is qualified by paragraph .131 in respect of [timberlands and growing timber,] income-producing real estate, [and motion picture films].) [FAS39, ¶11]

Other revenues, expenses, gains, and losses may be measured by such an enterprise at the amounts included in the primary income statement. An enterprise that chooses to present comprehensive financial statements on a current cost/constant dollar basis may measure the components of those statements either in average-for-the-year constant dollars or in end-of-year constant dollars. (This paragraph is qualified by paragraph .145 for enterprises that are subject to rate regulation or other form of price control.) [FAS33, ¶52]

.131 When an enterprise presents information on a current cost basis, it shall measure:

a. *Timberlands and growing timber* and related expenses at either their historical cost/constant dollar amounts or at current cost or lower recoverable amounts. [FAS41, ¶7] This provision, together with the provisions of paragraph .109, means that an enterprise needs to present information on a current cost basis only if it has significant holdings of inventory, property, plant, and equipment apart from timberlands and growing timber. [FAS40, ¶4]
b. *Income-producing real estate* and related expenses at either their historical cost/constant dollar amounts or at current cost or lower recoverable amounts. [FAS41, ¶7] This provision, together with the provisions of paragraph .109, means that an enterprise needs to present information on a current cost basis only if it has significant holdings of inventory, property, plant, and equipment apart from income-producing real estate and certain other specialized assets. [FAS41, ¶4]
c. *Motion picture films* and related amortization expense at either their historical cost/constant dollar amounts or at current cost or lower recoverable amounts. [FAS46, ¶8]

.132 If an enterprise estimates the current cost of growing timber and timber harvested by adjusting historical cost for the changes in specific prices, those historical costs may either (a) be limited to the costs that are capitalized in the primary financial statements or (b) include all costs that are directly related to reforestation and forest management, such as planting, fertilization, fire protection, property taxes, and nursery stock, whether or not those costs are capitalized in the primary financial statements. [FAS40, ¶7]

.133 The amount of income tax expense in computations of current cost income from continuing operations shall be the same as the amount of income tax expense charged against income from continuing operations in the primary financial statements. No adjustments shall be made to income tax expense for any timing differences that might be deemed to arise as a result of the use of current cost accounting methods. Income tax expense shall not be allocated between income from continuing operations and the increases or decreases in current cost amounts of inventory and property, plant, and equipment. [FAS33, ¶54]

Increases or Decreases in the Current Cost Amounts of Inventory and Property, Plant, and Equipment

.134 The increases or decreases in the current cost amounts of inventory and property, plant, and equipment represent the differences between the measures of the assets at their *entry dates* for the year and the measures of the assets at their *exit dates* for the year. *Entry dates* means the beginning of the year or the dates of acquisition, whichever is applicable; *exit dates* means the end of the year or the dates of use, sale, or commitment to a specific contract, whichever is applicable. For the purposes of this paragraph, assets are measured in accordance with the provisions of paragraph .129. [FAS33, ¶55]

.135 The increases or decreases in current cost amounts of inventory and property, plant, and equipment shall be reported both before and after eliminating the effects of general inflation. An enterprise that presents comprehensive supplementary statements on a current cost/constant dollar basis may measure increases or decreases in current cost amounts in average-for-the-year constant dollars or in end-of-year constant dollars; other enterprises shall measure those increases or decreases in average-for-the-year constant dollars. An acceptable approximate method of calculating the increases or decreases in current cost amounts and the inflation adjustment is illustrated in paragraphs .175 through .179. [FAS33, ¶56]

Information about Current Costs

.136 The current cost of inventory owned by an enterprise is the current cost of purchasing the goods concerned or the current cost of the resources required to produce the goods concerned (including an allowance for the current overhead costs according to the allocation bases used under generally accepted accounting principles), whichever would be applicable in the circumstances of the enterprise. [FAS33, ¶57]

.137 The current cost of property, plant, and equipment owned by an enterprise is the current cost of acquiring the same service potential (indicated by operating costs and physical output capacity) as embodied by the asset owned; the sources of information used to measure current cost should reflect whatever method of acquisition would currently be appropriate in the circumstances of the enterprise. The current cost of a used asset may be measured:

a. By measuring the current cost of a new asset that has the same service potential as the used asset [illegible] when it was new (the current cost of the asset as if it were new) and ded[illegible] allowance for depreciation
b. By measuring the [illegible]ost of a used asset of the same age and in the same condition as the as[illegible]ned
c. By measuring the current cost of a new asset with a different service potential and adjusting that cost for the value of the differences in service potential due to differences in life, output capacity, nature of service, and operating costs

Current cost may be measured by direct reference to current prices of comparable assets or methods such as functional pricing or unit pricing under which the current cost of a unit of service embodied in the asset owned is measured and the current cost per unit is multiplied by the appropriate number of service units. [FAS33, ¶58]

.138 [Measurements of] the current cost of inventory and property, plant, and equipment located outside the United States should be based on production or purchase of the asset in whatever location or market would minimize total cost including transportation cost. In some cases, the purchase would be made in the United States and current cost would be estimated directly in dollars. In other cases, current cost would be estimated first in an external market, and that cost would be translated into dollars. Such cases may present particular difficulty depending upon the availability of economic information in the country concerned. Experimentation in methods of measurement will be particularly necessary in such cases and approximate methods are acceptable in cases of difficulty. [FAS33, ¶181]

.139 If current cost is measured in a foreign currency, the amount shall be translated into dollars at the current exchange rate, that is, the rate at the date of use, sale, or commitment to a specific contract (in the cases of depreciation expense and cost of goods sold) or the rate at the balance sheet date (in the cases of inventory and property, plant, and equipment). [FAS33, ¶59]

.140 Enterprises may use various types of information to determine the current cost of inventory, property, plant, and equipment, cost of goods sold, and depreciation, depletion, and amortization expense.[5] The information may be gathered and applied internally or externally and may be applied to single items or broad categories, as appropriate in the circumstances. The following types of information are listed as examples of the information that may be used, but they are *not* listed in any order of preferability. Enterprises are expected to select types of

[5]Cost of goods sold measured on a LIFO basis may provide an acceptable approximation of cost of goods sold, measured at current cost, provided that the effect of any decreases in inventory layers is excluded. [FAS33, fn3]

information appropriate to their particular circumstances, giving due consideration to their availability, reliability, and cost:

a. Indexation
   (1) Externally generated price indexes for the class of goods or services being measured
   (2) Internally generated price indexes for the class of goods or services being measured
b. Direct pricing
   (1) Current invoice prices
   (2) Vendors' price lists or other quotations or estimates
   (3) Standard manufacturing costs that reflect current costs [FAS33, ¶60]

.141 The current cost of mineral resource assets is given by current market buying prices or by the current cost of finding and developing mineral reserves. It is recognized that no generally accepted approach exists for measuring the current finding cost of mineral reserves. To indicate the effects of changes in current costs, it may be impracticable to do more than adjust historical cost by an index of the changes in specific prices of the inputs concerned. That approach may fail to yield a close approximation of the current cost of finding and developing new reserves. In recognition of this difficulty, the requirements of this section are flexible regarding the approach used to measure current cost [of mineral resource assets]. The approach may include use of specific price indexes, direct information about market buying prices, and other statistical evidence of the cost of acquisitions. [FAS39, ¶2]

Depreciation Expense

.142 There is a presumption that depreciation methods, estimates of useful lives, and salvage values of assets should be the same for purposes of current cost, historical cost/constant dollar, and historical cost/nominal dollar depreciation calculations. However, if the methods and estimates used for calculations in the primary financial statements have been chosen partly to allow for expected price changes, different methods and estimates may be used for purposes of current cost and historical cost/constant dollar calculations. [FAS33, ¶61]

Recoverable Amounts

.143 The term *recoverable amount* means the current worth of the net amount of cash expected to be recoverable from the use or sale of an asset. If the recoverable amount for a group of assets is judged to be materially and permanently lower than historical cost in constant dollars or current cost, the recoverable amount shall be used as a measure of the assets and of the expense [illegible]ciated with the use or sale of the assets. Decisions on the measurement of as[illegible]s at their recoverable amounts need not be made by considering assets individually unless they are used independently of other assets. [FAS33, ¶62]

.144 Recoverable amounts may be measured by considering the net realizable values or the values in use of the assets concerned:

a. *Net realizable value* is the amount of cash, or its equivalent, expected to be derived from sale of an asset net of costs required to be incurred as a result of the sale. It shall be considered as a measurement of an asset only when the asset concerned is about to be sold.
b. *Value in use* is the net present value of future cash flows (including the ultimate proceeds of disposal) expected to be derived from the use of an asset by the enterprise. It shall be considered as a measurement of an asset only when immediate sale of the asset concerned is not intended. Value in use shall be estimated by discounting expected future cash flows at an appropriate discount rate that allows for the risk of the activities concerned. [FAS33, ¶63]

.145 An enterprise that is subject to rate regulation or other form of price control may be limited to a maximum recovery through its selling prices, based on the nominal dollar amount of the historical cost of its assets. In that situation, nominal dollar/historical costs may represent an appropriate basis for the measurement of the recoverable amounts associated with the assets at the end of the fiscal year. Recoverable amounts may also be lower than historical costs. However, cost of goods sold and depreciation, depletion, and amortization expense shall be measured at historical cost/constant dollar amounts (in measurements of historical cost/constant dollar income from continuing operations) or at current cost (in measurements of current cost income from continuing operations) provided that replacement of the service potential provided by the related assets would be undertaken, if necessary, in current economic conditions; if replacement would not be undertaken, expenses shall be measured at recoverable amounts. [FAS33, ¶64]

Five-Year Summary of Selected Financial Data

.146 The information presented in the five-year summary shall be stated either:

a. In average-for-the-year constant dollars or end-of-year constant dollars (whichever is used for the measurement of income from continuing operations) as measured by the Consumer Price Index for All Urban Consumers for the current fiscal year
b. In dollars having a purchasing power equal to that of dollars of the base period used by the Bureau of Labor Statistics in calculating the Consumer Price Index (currently 1967) [FAS33, ¶65]

.147 If an enterprise presents the minimum information required by this section, it shall measure net assets (that is, shareholders' equity) for the purposes of the five-year summary:

a. On a historical cost/constant dollar basis at the amount reported in its primary financial statements adjusted for the difference between the historical cost/nominal dollar amounts and the historical cost/constant dollar amounts or lower recoverable amounts of inventory and property, plant, and equipment
b. On a current cost basis at the amount reported in its primary financial statements, adjusted for the difference between the historical cost/nominal dollar amounts and the current cost or lower recoverable amounts of inventory and property, plant, and equipment and restated in constant dollars in accordance with paragraph .146

If an enterprise elects to present comprehensive supplementary financial statements on a current cost/constant dollar basis, or on a historical cost/constant dollar basis, it may report the amount of net assets in the five-year summary in accordance with the comprehensive statements. [FAS33, ¶66]

Transition Provisions

.148 An enterprise is required to state, in the five-year summary of selected financial data, only the following amounts for fiscal years ended before December 25, 1979: net sales and other operating revenues, cash dividends declared per common share at fiscal year-end (paragraphs .113(a), (d)(2), and (d)(3)). Disclosure of the other items listed in paragraph .113 for fiscal years ended before December 25, 1979 is encouraged. Disclosure of current cost information in the five-year summary (paragraph .113(c)) for fiscal years ending before December 25, 1980 may be postponed to the first annual report for a fiscal year ending on or after December 25, 1980. [FAS33, ¶68] An enterprise that first applies the requirements of this section for a fiscal year ended on or after December 25, 1980 is required to state for earlier years, in its five-year summary, only the following items listed in paragraph .113: net sales and other operating revenues (item (a)), cash dividends declared per common share (item (d)(2)), and market price per common share at fiscal year-end (item (d)(3)). Disclosure of the other items listed in paragraph .113 for earlier years is encouraged. [FAS33, ¶69]

Illustrations of Disclosures

.149 Exhibits 149A through 149C illustrate formats that may be used to disclose the information required by this section. The illustrations relate to a manufacturing enterprise. Clear presentations and explanations are important if information on the effects of changing prices is to be as useful as possible. Enterprises are encouraged to experiment with the use of different forms of presentation. [FAS33, ¶70]

Exhibit 149A

Statement of Income from Continuing Operations Adjusted for Changing Prices

For the Year Ended December 31, 19X9 (in 000s of average 19X9 dollars)

Income from continuing operations, as reported in the income statement		$ 9,000
Adjustments to restate costs for the effect of general inflation		
Cost of goods sold	$(7,384)	
Depreciation and amortization expense	(4,130)	(11,514)
Loss from continuing operations adjusted for general inflation		(2,514)
Adjustments to reflect the difference between general inflation and changes in specific prices (current costs)		
Cost of goods sold	$(1,024)	
Depreciation and amortization expense	(5,370)	(6,394)
Loss from continuing operations adjusted for changes in specific prices		$(8,908)
Gain from decline in purchasing power of net amounts owed		$ 7,729
Increase in specific prices (current cost) of inventories and property, plant, and equipment held during the year*		$24,608
Effect of increase in general price level		18,959
Excess of increase in specific prices over increase in the general price level		$ 5,649

*At December 31, 19X9, current cost of inventory was $65,700 and current cost of property, plant, and equipment, net of accumulated depreciation, was $85,100. [FAS33, ¶70]

Exhibit 149B

Statement of Income from Continuing Operations Adjusted for Changing Prices
For the Year Ended December 31, 19X9
(In (000s) of Dollars)

	As Reported in the Primary Statements	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
Net sales and other operating revenues	$253,000	$253,000	$253,000
Cost of goods sold	197,000	204,384	205,408
Depreciation and amortization expense	10,000	14,130	19,500
Other operating expense	20,835	20,835	20,835
Interest expense	7,165	7,165	7,165
Provision for income taxes	9,000	9,000	9,000
	244,000	255,514	261,908
Income (loss) from continuing operations	$ 9,000	$ (2,514)	$ (8,908)
Gain from decline in purchasing power of net amounts owed		$ 7,729	$ 7,729
Increase in specific prices (current cost) of inventories and property, plant, and equipment held during the year*			$ 24,608
Effect of increase in general price level			18,959
Excess of increase in specific prices over increase in the general price level			$ 5,649

*At December 31, 19X9 current cost of inventory was $65,700 and current cost of property, plant, and equipment, net of accumulated depreciation was $85,100. [FAS33, ¶70]

Exhibit 149B

Statement of Income from Continuing Operations Adjusted for Changing Prices
For the Year Ended December 31, 19X9
(In (000s) of Dollars)

	As Reported in the Primary Statements	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
Net sales and other operating revenues	$253,000	$253,000	$253,000
Cost of goods sold	197,000	204,384	205,408
Depreciation and amortization expense	10,000	14,130	19,500
Other operating expense	20,835	20,835	20,835
Interest expense	7,165	7,165	7,165
Provision for income taxes	9,000	9,000	9,000
	244,000	255,514	261,908
Income (loss) from continuing operations	$ 9,000	$ (2,514)	$ (8,908)
Gain from decline in purchasing power of net amounts owed		$ 7,729	$ 7,729
Increase in specific prices (current cost) of inventories and property, plant, and equipment held during the year*			$ 24,608
Effect of increase in general price level			18,959
Excess of increase in specific prices over increase in the general price level			$ 5,649

*At December 31, 19X9 current cost of inventory was $65,700 and current cost of property, plant, and equipment, net of accumulated depreciation was $85,100. [FAS33, ¶70]

Exhibit 149C

Five-Year Comparison of Selected Supplementary Financial Date Adjusted for Effects of Changing Prices (In (000s) of Average 19X9 Dollars)

	Years Ended December 31,				
	19X5	**19X6**	**19X7**	**19X8**	**19X9**
Net sales and other operating revenues	$265,000	$235,000	$240,00C	$237,063	$253,000
Historical Cost information adjusted for general inflation					
Income (loss) from continuing operations				(2,761)	(2,514)
Income (loss) from continuing operations per common share				$ (1.91)	$ (1.68)
Net assets at year-end				55,518	57,733
Current cost information					
Income (loss) from continuing operations				(4,125)	(8,908)
Income (loss from continuing operations per common share				$ (2.75)	$ (5.94)
Excess of increase in specific prices over increase in the general price level				2,292	5,649
Net assets at year-end				79,996	81,466
Gain from decline in purchasing power of net amounts owned				7,027	7,729
Cash dividends declared per common share	$ 2.59	$ 2.43	$ 2.26	$ 2.16	$ 2.00
Market price per common share at year-end	$ 32	$ 31	$ 43	$ 39	$ 35
Average consumer price index	170.5	181.5	195.4	205.0	220.9

[FAS33, ¶70]

Illustrations of Mineral Reserves Disclosures

.150 Exhibit 150A illustrates a format for presenting quantity and price information relating to an enterprise's mineral reserves other than oil and gas. The format given here is only an illustration and is not intended to constrain enterprises from experimenting with the use of different forms of presentation. [FAS39, ¶17]

Exhibit 150A

Illustration of Supplementary Operating Statistics
For a Mining Enterprise
For the Five Years Ended 19X5

	19X5	19X4	19X3	19X2	19X1
Proven and probable ore reserves at beginning of year (Note)					
Tons (thousands)	21,000	21,500	22,000	23,000	24,000
Copper (percent)	1.109	1.109	1.109	1.109	1.109
Lead (percent)	5.99	5.98	5.98	5.98	5.98
Silver (ounces/tons)	3.79	3.80	3.80	3.75	3.75
Tons of ore milled (thousands)	1,025	1,000	890	900	850
Metal produced (thousands)					
- copper (pounds)	17,250	18,480	16,880	10,980	11,220
- lead (pounds)	92,700	92,400	75,450	53,910	45,750
- silver (ounces)	2,800	2,803	2,270	1,850	1,540
Average market price					
- copper (cents per pound)	85	75	68	72	61
- lead (cents per pound)	44	40	36	36	32
- silver (cents per ounce)	510	400	350	368	325

Proved reserves—The estimated quantities of commercially recoverable reserves that, on the basis of geological, geophysical, and engineering data, can be demonstrated with a reasonably high degree of certainty to be recoverable in the future from known mineral deposits by either primary or improved recovery methods.

Probable reserves—The estimated quantities of commercially recoverable reserves that are less well defined than proved reserves and that may be estimated or indicated to exist on the basis of geological, geophysical, and engineering data.

This [exhibit] illustrates one method of disclosing information about quantities of minerals owned, marketable products produced, and average market prices for those products. Other formats are acceptable. Information about ore grades and differentiations between the production of ores and of marketable product may not be appropriate for some minerals. The classification and degree of detail should follow normal industry practice. Beginning-of-year reserves are used for illustrative purposes. The requirement is for end-of-year or the most recent date during the year. Ranges of prices during the year may be supplied in addition to average prices. [FAS39, ¶17]

Monetary and Nonmonetary Items

.151 Exhibit 151A provides guidance on the interpretation of paragraphs .125 and .126 for the classification of certain asset and liability items as monetary or nonmonetary. It is not intended to provide answers that should be followed regardless of the circumstances of the case. Rather, the intent is to illustrate the application of the definitions to common cases under typical circumstances. In other circumstances the classification should be resolved by reference to the definitions [in the glossary]. [FAS33, ¶208] [The supplemental information in paragraphs .504 through .520 provides additional guidance on classification.]

Exhibit 151A

Examples of Monetary and Nonmonetary Items

Assets

	Monetary	Nonmonetary
Cash on hand and demand bank deposits (U.S. dollars)	X	
Time deposits (U.S. dollars)	X	
Foreign currency on hand and claims to foreign currency†	X	
Securities:		
Common stocks (not accounted for on the equity method)		X
Common stocks represent residual interests in the underlying net assets and earnings of the issuer.		
Preferred stock (convertible or participating)		
Circumstances may indicate that such stock is either monetary or nonmonetary. Refer to convertible bonds.	(Refer to discussion.)	
Preferred stock (nonconvertible, nonparticipating)		
Future cash receipts are likely to be substantially unaffected by changes in specific prices.	X	

Exhibit 151A (continued)

	Monetary	Nonmonetary
Convertible bonds If the market values the security primarily as a bond, it is monetary; if it values the security primarily as a stock, it is nonmonetary.	(Refer to discussion.)	
Bonds (other than convertibles)	X	
Accounts and notes receivable	X	
Allowance for doubtful accounts and notes receivable	X	
Variable rate mortgage loans The terms of such loans do not link them directly to the rate of inflation. Also, there are practical reasons for classifying all loans as monetary.	X	
Inventories used on contracts They are, in substance, rights to receive sums of money if the future cash receipts on the contracts will not vary due to future changes in specific prices. (Goods used on contracts to be priced at market upon delivery are nonmonetary.)	(Refer to discussion.)	
Inventories (other than inventories used on contracts)		X
Loans to employees	X	
Prepaid insurance, advertising, rent, and other prepayments Claims to future services are nonmonetary. Prepayments that are deposits, advance payments, or receivables are monetary because the prepayment does not obtain a given quantity of future services, but rather is a fixed money offset.	(Refer to discussion.)	
Long-term receivables	X	
Refundable deposits	X	
Advances to unconsolidated subsidiaries	X	
Equity investment in unconsolidated subsidiaries or other investees*		X
Pension, sinking, and other funds under an enterprise's control		

Exhibit 151A (continued)

	Monetary	Nonmonetary
The specific assets in the fund should be classified as monetary or nonmonetary. (Refer to listings under securities above.)	(Refer to discussion.)	
Property, plant, and equipment		X
Accumulated depreciation of property, plant, and equipment		X
Cash surrender value of life insurance	X	
Purchase commitments—portion paid on fixed price contracts		X
An advance on a fixed price contract is the portion of the purchaser's claim to nonmonetary goods or services that is recognized in the accounts; it is not a right to receive money.		
Advances to supplier—not on a fixed price contract	X	
A right to receive credit for a sum of money; [it is] not a claim to a specified quantity of goods or services.		
Deferred income tax charges†	X	
[These are] offsets to prospective monetary liabilities.		
Patents, trademarks, licenses and formulas		X
Goodwill		X
Deferred life insurance policy acquisition costs†	X	
The portion of future cash receipts for premiums that is recognized in the accounts. Alternatively, viewed as an offset to the policy reserve.		
Deferred property and casualty insurance policy acquisition costs related to unearned premiums		X
Other intangible assets and deferred charges		X

Liabilities

	Monetary	Nonmonetary
Accounts and notes payable	X	
Accrued expenses payable (wages, etc.)	X	
Accrued vacation pay		
Nonmonetary if it is paid at the		

Exhibit 151A (continued)

	Monetary	Nonmonetary
wage rates as of the vacation dates and if those rates may vary.	(Refer to discussion.)	
Cash dividends payable	X	
Obligations payable in foreign currency	X	
Sales commitments—portion collected on fixed price contracts		X
An advance received on a fixed price contract is the portion of the seller's obligation to deliver goods or services that is recognized in the accounts; it is not an obligation to pay money.		
Advance from customers—not on a fixed price contract	X	
Equivalent of a loan from the customer; not an obligation to furnish a specified quantity of goods or services.		
Accrued losses on firm purchase commitments	X	
In essence, these are accounts payable.		
Deferred revenue		
Nonmonetary if an obligation to furnish goods or services is involved. Certain deferred income items of savings and loan associations are monetary.	(Refer to discussion.)	
Refundable deposits	X	
Bonds payable and other long-term debt	X	
Unamortized premium or discount and prepaid interest on bonds or notes payable	X	
Inseparable from the debt to which it relates—a monetary item.		
Convertible bonds payable	X	
Until converted these are obligations to pay sums of money.		
Accrued pension obligations		
Fixed amounts payable to a fund are monetary; all other amounts are nonmonetary.	(Refer to discussion.)	
Obligations under warranties		X
These are nonmonetary because they oblige the enterprise to furnish goods or services or their future price.		

Exhibit 151A (continued)

	Monetary	Nonmonetary
wage rates as of the vacation dates and if those rates may vary.	(Refer to discussion.)	
Cash dividends payable	X	
Obligations payable in foreign currency	X	
Sales commitments—portion collected on fixed price contracts		X
An advance received on a fixed price contract is the portion of the seller's obligation to deliver goods or services that is recognized in the accounts; it is not an obligation to pay money.		
Advance from customers—not on a fixed price contract	X	
Equivalent of a loan from the customer; not an obligation to furnish a specified quantity of goods or services.		
Accrued losses on firm purchase commitments	X	
In essence, these are accounts payable.		
Deferred revenue		
Nonmonetary if an obligation to furnish goods or services is involved. Certain deferred income items of savings and loan associations are monetary.	(Refer to discussion.)	
Refundable deposits	X	
Bonds payable and other long-term debt	X	
Unamortized premium or discount and prepaid interest on bonds or notes payable	X	
Inseparable from the debt to which it relates—a monetary item.		
Convertible bonds payable	X	
Until converted these are obligations to pay sums of money.		
Accrued pension obligations		
Fixed amounts payable to a fund are monetary; all other amounts are nonmonetary.	(Refer to discussion.)	
Obligations under warranties		X
These are nonmonetary because they oblige the enterprise to furnish goods or services or their future price.		

Exhibit 151A (continued)	Monetary	Nonmonetary
Deferred income tax credits†	X	
Cash requirements will not vary materially due to changes in specific prices.		X
Deferred investment tax credits		X
Not to be settled by payment of cash; associated with nonmonetary assets.		
Life insurance policy reserves	X	
Portions of policies' face values that are now deemed liabilities.		
Property and casualty insurance loss reserves	X	
Unearned property and casualty insurance premiums		X
These are nonmonetary because they are principally obligations to furnish insurance coverage. The dollar amount of payments to be made under that coverage might vary materially due to changes in specific prices.		
Deposit liabilities of financial institutions	X	

*If an investment is accounted for on the equity method, and if the investor is preparing comprehensive constant dollar financial statements, the financial statements of the investee theoretically should be restated in constant dollars and the equity method should then be applied. However, if restated financial statements cannot be obtained from the investee, the investor may be able to prepare such statements using nominal dollar information that is available, such as nominal dollar financial statements for a series of years. As a simpler alternative, an investor that prepares comprehensive constant dollar statements merely could restate the entries in the investment account as recorded in accordance with the equity method.

†Although classification of this item as nonmonetary may be technically preferable, the monetary classification provides a more practical solution for the purposes of constant dollar accounting. [FAS33, ¶208]

Illustrative Calculations to Compute Historical Cost/Constant Dollar Information and Current Cost Information

.152 Paragraphs .153 through .183 give an example of the methodology that might be used in calculating the disclosures illustrated in Exhibits 149A through 149C. [FAS33, ¶209]

.153 Computation of historical cost/constant dollar information and of current cost information could be based on a detailed analysis of all transactions and an updating of all revenues, expenses, gains, and losses to reflect changes in purchasing power. However, the costs of preparing the information can be reduced with little loss of usefulness by simplifying the methods of calculation. Therefore, revenues, expenses, gains, and losses except cost of sales and depreciation expense need not be adjusted from the amounts shown in the primary income statement, and approximate methods of computation are acceptable for adjusting cost of sales and depreciation expense (and the related asset measurements). The *measurement* of current cost is not illustrated in this section. However, enterprises may find it convenient to follow the methods of measurement illustrated for historical cost/constant dollar measurements, using specific price indexes in place of general price indexes. [FAS33, ¶210]

.154 The objective in making these calculations is to obtain a *reasonable degree* of accuracy—complete precision is not required. Preparers are encouraged to devise short-cut methods of calculation appropriate to their individual circumstances. [redacted] [FAS33, ¶211]

.155 If inventories and cost of sales are accounted for under the LIFO method in the primary financial statements, the only adjustment normally required in computing income from continuing operations would be to eliminate the effect of changing prices on any prior period LIFO layer liquidation. [FAS33, ¶212]

.156 The following sample calculations illustrate the minimum required calculations (in paragraphs .165 through .179). A method of checking the arithmetical accuracy of the calculations is included in paragraphs .180 and .182. [FAS33, ¶213]

.157 Throughout this illustration [redacted] and [redacted] [FAS33, ¶214]

.158 The results of these calculations, summarized in paragraph .182, are reflected in the illustrative disclosures in Exhibits 149A through 149C. [FAS33, ¶215]

[redacted]

.159 Seven basic steps to restate nominal dollar information (on either a historical cost basis or a current cost basis) into constant dollars are illustrated in paragraphs .164 through .182 [(based on information in Exhibits 159A and 159B and paragraphs .160 through .163)].

a. Analyze inventory (at the beginning and end of the year) and cost of goods sold to determine when the costs were incurred.
b. Restate inventory and cost of goods sold into constant dollars and current cost.

c. Analyze property, plant, and equipment and related depreciation, depletion, and amortization expense to determine when the related assets were acquired.
d. Restate property, plant, and equipment and depreciation, depletion, and amortization expense into constant dollars and current cost.
e. Identify amount of net monetary items at the beginning and end of the period and changes during the period (refer to Exhibit 151A).
f. Compute the purchasing power gain and loss on net monetary items.
g. Compute change in current cost of inventory and property, plant, and equipment and the related effect of the increase in the general price level. [FAS33, ¶216]

Exhibit 159A

Historical Cost/Nominal Dollar Financial Statements and Other Background Information

Balance Sheets as at December 31, 19X9 and 19X8
(000s)

	19X9	19X8
Current assets:		
Cash	$ 1,000	$ 2,000
Accounts receivable	36,000	30,000
Inventories, at FIFO cost	63,000	56,000
Total current assets	100,000	88,000
Property, plant, and equipment, at cost	100,000	85,000
Less accumulated depreciation	56,000	46,000
	44,000	39,000
	$144,000	$127,000

	19X9	19X8
Current liabilities:		
Bank indebtedness	$ 35,000	$ 22,000
Accounts payable and accrued expenses	12,000	10,000
Income taxes payable	6,000	6,000
Current portion of long-term debt	5,000	5,000
Total current liabilities	58,000	43,000
Deferred income taxes	6,000	5,000
Long-term debt	34,000	39,000
Total liabilities	98,000	87,000
Shareholders' equity	46,000	40,000
	$144,000	$127,000

[FAS33, ¶217]

d. At December 31, 19X9, the selling price per unit was $85. [FAS33, ¶218]

.161 Property, Plant, and Equipment

a. Details of fixed assets at December 31, 19X9 are as follows:

Date Acquired	Percent Depreciated	Historical Cost (000s)	Accumulated Depreciation (000s)
19X2	80	$ 50,000	$40,000
19X3	70	5,000	3,500
19X4	60	5,000	3,000
19X5	50	5,000	2,500
19X6	40	5,000	2,000
19X7	30	5,000	1,500
19X8	20	10,000	2,000
19X9	10	15,000	1,500
		$100,000	$56,000

b. Depreciation is calculated at 10 percent per annum, straight-line. A full year's depreciation is charged in the year of acquisition.
c. There were no disposals.
d. Management has measured the current cost of property, plant, and equipment at December 31, 19X9 and 19X8 as follows:

(000s)

Date Acquired	December 31, 19X9 Current Cost	December 31, 19X9 Accumulated Depreciation	December 31, 19X8 Current Cost	December 31, 19X8 Accumulated Depreciation
19X2	$120,000	$ 96,000	$110,000	$ 77,000
19X3	10,000	7,000	6,000	3,600
19X4	15,000	9,000	7,000	3,500
19X5	18,000	9,000	12,000	4,800
19X6	12,000	4,800	10,000	3,000
19X7	17,000	5,100	15,000	3,000
19X8	12,000	2,400	10,000	1,000
19X9	16,000	1,600	—	—
	220,000	$134,900	170,000	$ 95,900
Accumulated depreciation	134,900		95,900	
Net current cost	$ 85,100		$ 74,100	

Exhibit 159B

Statement of Earnings and Shareholders' Equity for the Years Ended December 31, 19X9 and 19X8 (000s)

	19X9	19X8
Sales	$253,000	$220,000
Cost of goods sold, exclusive of depreciation	197,000	170,600
Selling, general, and administrative expenses	20,835	25,500
Depreciation	10,000	8,500
Interest	7,165	3,400
	235,000	208,000
Earnings before taxes	18,000	12,000
Income taxes	9,000	6,000
Net income	9,000	6,000
Shareholders' equity at beginning of year	40,000	37,000
	49,000	43,000
Dividends	3,000	3,000
Shareholders' equity at end of year	$ 46,000	$ 40,000
Net income per share	$ 6.00	$ 4.00

[FAS33, ¶217]

.160 Inventory and Production

a. Inventory is accounted for on a FIFO basis and turns over four times per year. There is no significant amount of work in progress or raw material.
b. At December 31, 19X9 and 19X8, inventory consisted of 900,000 units and 1,000,000 units respectively—representing production of the immediately preceding quarter. Management has measured the current cost of inventory at $73 per unit at December 31, 19X9 ($65,700,000) and $58 per unit at December 31, 19X8 ($58,000,000).
c. Costs were incurred and goods produced as follows:

	19X8	19X9				
	4th	1st	2nd	3rd	4th	Total
Historical Costs (000s)	$56,000	$39,560	$59,400	$42,040	$63,000	$204,000
Units produced (000s)	1,000	618	900	618	900	3,036
Units sold (000s)		1,000	618	900	618	3,136

e. The net recoverable amount has been determined by management to be in excess of net current cost. [FAS33, ¶219]

.162 Dividends: Dividends were p at the rate of $750,000 per quarter. [FAS33, ¶220]

.163 Consumer Price Index (All Urban Consumers) [for 19X2 through 19X9 is as follows:]

Average	19X2	133.1	Average 4th Qtr.	19X8*	210.0
"	19X3	147.7	Average 4th Qtr.	19X9*	237.8
"	19X4	161.2	December	19X8	212.9
"	19X5	170.5	December	19X9	243.5
"	19X6	181.5			
"	19X7	195.4			
"	19X8	205.0			
"	19X9	220.9†			

*Calculated by averaging the estimated monthly indexes for each quarter.
†Calculated by averaging the estimated monthly indexes for 19X9. The index for the last month of the year may not be available at the time of preparing the supplemental disclosures and may be estimated by extrapolating the rate of change for the previous month. [FAS33, ¶221]

Objective

.164 The objective is to express the supplementary information in average 19X9 dollars. As indicated in paragraph .153, nominal dollar measurements are to be used for all elements other than inventory, property, plant, and equipment, cost of sales, depreciation, and increases in current cost amounts of inventory and property, plant, and equipment. [FAS33, ¶222]

Inventory and Cost of Goods Sold

.165 *Step 1: Analyze inventory and cost of goods sold.* Inventory is assumed to turn over four times per year (refer to paragraph .164). Therefore, inventory with a historical cost of $63,000 at December 31, 19X9 is assumed to have been acquired during the fourth quarter of 19X9 and inventory with a historical cost of $56,000 at December 31, 19X8 is assumed to have been acquired in the fourth quarter of 19X8. [FAS33, ¶223]

.166 *Step 2: Restate historical cost of inventory and cost of goods sold into average 19X9 dollars and at current cost.* Inventory [is restated as follows:]

	(000s) Historical Cost/ Constant Dollars	Current Cost
$63,000* × $\frac{220.9 \text{ (average 19X9)}}{237.8 \text{ (4th qtr. 19X9)}}$	C$ 58,523	$65,700†

*From paragraph .160(c).
†From paragraph .160(b). [FAS33, ¶224]

.167 Cost of goods sold, historical cost/constant dollar, [is computed as follows:]

	(000s) Nominal Dollars	Conversion Factor	Average 19X9 Dollars
Balance, January 1, 19X9	$ 56,000	× $\frac{220.9 \text{ (avg. 19X9)}}{210.0 \text{ (4th qtr. 19X8)}}$	C$ 58,907
Production during 19X9 (refer to paragraph .160(c))	204,000	*	204,000
Balance, December 31, 19X9	(63,000)	× $\frac{220.9 \text{ (avg. 19X9)}}{237.8 \text{ (4th qtr. 19X9)}}$	(58,523)
Cost of goods sold	$197,000		C$204,384

*Assumed to be in average 19X9 dollars. [FAS33, ¶225]

.168 Cost of goods sold, current cost is [as follows]:

Current cost at the beginning of the year	$ 58/unit
Current cost at the end of the year	73/unit
	$ 131/unit
Average current cost ($131 × ½)	$ 65.5/unit
Units sold during the year (000s)	3,136
Average current cost of goods sold (000s)	$205,408

[FAS33, ¶226]

.169 In applying this section, the historical cost/constant dollar and current cost amounts should be compared to the recoverable amount. This is illustrated below:

Market price/unit at year-end (from paragraph .160(d))	$85
Restated to average 19X9 dollars:	
$\$85 \times \frac{220.9 \text{ (average 19X9)}}{243.5 \text{ (Dec. 19X9)}}$	C$ 77.11

Historical cost/constant dollar:	(000s)
Market value of inventory on hand at year-end (77.11 x 900,000)	C$ 69,399
Restated historical cost (refer to paragraph .167)	58,523
Excess—no write-down required	C$ 10,876

Current cost:	
Market value per unit at year-end	$85
Current cost per unit of inventory on hand at year-end (refer to paragraph .160(b))	73
Excess—no write-down required	$12

[FAS33, ¶227]

Property, Plant, and Equipment and Depreciation, Depletion, and Amortization Expense

.170 *Step 3: Analyze property, plant, and equipment and depreciation, depletion, and amortization.* An analysis of property, plant, and equipment is given in paragraph .162. It normally will not be necessary to restate the cost and accumulated depreciation for each asset individually in order to obtain an acceptable level of accuracy. Satisfactory results can normally be obtained by using annual totals of acquisitions and dispositions and the average index for the year of acquisition and disposal. Moreover, assets acquired many years before the balance sheet date might be combined into convenient groups if there is some doubt about the specific years of acquisition or if changes in the index for several years can be considered on an average basis. For example, the cost of all assets acquired between 1945 and 1950 could be measured by reference to an index representing an average of those years. [FAS33, ¶228]

.171 *Step 4: Restate property, plant, and equipment and depreciation, depletion, and amortization expense into constant dollars and current cost.* Historical cost or property, plant, and equipment in average 19X9 dollars [is presented in Exhibit 171A.] [FAS33, ¶229]

Exhibit 171A

Historical Cost of Property, Plant, and Equipment in Average 19X9 Dollars

Date of Acquisition	(1) Historical Cost/ Nominal Dollars (000s)		(2) Conversion Factor		(3) (1) x (2) Historical Cost/ Constant Dollars (000s)	(4) Percent Depreciated	(5) (3) x (4) Accumulated Depreciation (000s)	(6) (3) – (5) Net
19X2	$ 50,000	x	220.9 (Avg. 19X9) / 133.1 (" 19X2)	=	C$ 82,983	80	C$66,386	
19X3	5,000	x	220.9 (" 19X9) / 147.7 (" 19X3)	=	7,478	70	5,235	
19X4	5,000	x	220.9 (" 19X9) / 161.2 (" 19X4)	=	6,852	60	4,111	
19X5	5,000	x	220.9 (" 19X9) / 170.5 (" 19X5)	=	6,478	50	3,239	
19X6	5,000	x	220.9 (" 19X9) / 181.5 (" 19X6)	=	6,085	40	2,434	
19X7	5,000	x	220.9 (" 19X9) / 195.4 (" 19X7)	=	5,652	30	1,696	
19X8	10,000	x	220.9 (" 19X9) / 205.0 (" 19X8)	=	10,776	20	2,155	
19X9	15,000	x	220.9 (" 19X9) / 220.9 (" 19X9)	=	15,000	10	1,500	
	$100,000				C$141,304		C$86,756	C$54,548

Historical cost/constant dollar depreciation expense for 19X9 is calculated as follows:

C$141,304 (column (3) x 10% straight-line = $14,130 [FAS33, ¶229]

Property, Plant, and Equipment at Current Cost

.172 It will usually be appropriate to calculate current cost depreciation, depletion, and amortization expense by reference to average current cost of the related assets (current cost of assets at beginning of year and current cost of assets at end of year ÷ 2).

	Current Cost (000s)
Current cost, December 31, 19X8 (refer to paragraph .161(d))	$170,000
Current cost, December 31, 19X9 (refer to paragraph .161(d))	220,000
[Total]	$390,000
	÷ 2
Average current cost	$195,000
Current cost depreciation: 10% straight-line	$ 19,500

In this example, management has determined that the *recoverable amount* is greater than net current cost of property, plant, and equipment and there is no write-down required. [FAS33, ¶230]

Purchasing Power Gain on Net Monetary Items

.173 *Step 5: Identify monetary items at the beginning and end of the period and change during the period.* Monetary items [are identified as follows:]

	(000s) Balance*	
	Dec. 19X9	Dec. 19X8
Cash	$ 1,000	$ 2,000
Accounts receivable	36,000	30,000
Bank indebtedness	(35,000)	(22,000)
Accounts payable and accrued expenses	(12,000)	(10,000)
Income taxes payable	(6,000)	(6,000)
Current portion of long-term debt	(5,000)	(5,000)
Deferred income taxes	(6,000)	(5,000)
Long-term debt	(34,000)	(39,000)
Net monetary liabilities	$ (61,000)	$ (55,000)

*Refer to Exhibit 159A. [FAS33, ¶231]

.174 *Step 6: Compute the purchasing power gain or loss on net monetary items.* The amount of net monetary items at the beginning of the year, changes in the net monetary items, and the amount at the end of the year are [redacted]. The purchasing power gain or loss on net monetary items is then the balancing item as illustrated below:

Why not year end dollars?

	(000s)		
	Nominal Dollars	**Conversion Factor**	**Average 19X9 Dollars**
Balance, January 1, 19X9	\$55,000	× 220.9 (avg. 19X9) / 212.9 (Dec. 19X8)	C\$57,067
Increase in net monetary liabilities during the year	6,000	*	6,000
			63,067
Balance, December 31, 19X9	\$61,000	× 220.9 (avg. 19X9) / 243.5 (Dec. 19X9)	55,338
Purchasing power gain on net monetary items			C\$ 7,729

*Assumed to be in average 19X9 dollars. [FAS33, ¶232]

Increase in Current Cost of Inventories and Property, Plant, and Equipment

.175 *Step 7: Compute change in current cost of inventory and property, plant, and equipment and effect of the increase in the general price level.* Increase in current cost of inventories [is computed as follows:]

	(000s)		
	Current Cost/ Nominal Dollars	**Conversion Factor**	**Current Cost/ Average 19X9 Dollars**
Balance, January 1, 19X9 (refer to paragraph .160(b))	$58,000	× 220.9 (avg. 19X9) / 212.9 (Dec. 19X8)	C$ 60,179
Production (refer to paragraph .160(c))	204,000	*	204,000
Cost of goods sold (refer to paragraph .168)	(205,408)	*	(205,408)
Balance, December 31, 19X9 (refer to paragraph .160(b))	(65,700)	× 220.9 (avg. 19X9) / 243.5 (Dec. 19X9)	(59,602)
Increase/(decrease) current cost of inventories	$ 9,108		C$ 831

*Assumed to be in average 19X9 dollars. [FAS33, ¶233]

.176 The *inflation component* of the increase in current cost amount is the difference between the nominal dollar and constant dollar measures. Using the numbers from paragraph .175, [it is computed as follows:]

	(000s)
Increase in current cost (nominal dollars)	$9,108
Increase in current cost (constant dollars)	C$ 831
Inflation component	8,277

[FAS33, ¶234]

.177 Increase in current cost of property, plant, and equipment [is determined as follows:]

	(000s)		
	Current Cost/ Nominal Dollars	Conversion Factor	Current Cost/ Average 19X9 Dollars
Balance, January 1, 19X9 (refer to paragraph .161(d))	$74,100	× 220.9 (avg. 19X9) / 212.9 (Dec. 19X8)	C$ 76,884
Additions (refer to paragraph .161(a))	15,000	*	15,000
Depreciation expense (refer to paragraph .172)	(19,500)	*	(19,500)
Balance, December 31, 19X9 (paragraph .161(d))	(85,100)	× 220.9 (avg. 19X9) / 243.5 (Dec. 19X9)	(77,202)
Increase in current cost of property, plant, and equipment	$ 15,500		C$ 4,818

*Assumed to be in average 19X9 dollars. [FAS33, ¶235]

.178 The *inflation component* of the increase in current cost amount is the difference between the nominal dollar and constant dollar measures. Using the numbers from paragraph .177, [it is computed as follows:]

	(000s)
Increase in current cost (nominal dollars)	$15,500
Increase in current cost (constant dollars)	C$ 4,818
Inflation component	10,682

[FAS33, ¶236]

Summary of Increase in Current Cost Amounts

.179 Summarizing paragraphs .176 and .178 above:

	(000s)		
	Increase in Current Cost	Inflation Component	Increase Net of Inflation
Inventory	$ 9,108	8,277	C$ 831
Property, plant, and equipment	15,500	10,682	4,818
Totals	$24,608	18,959	C$5,649

[FAS33, ¶237]

Check of Calculations

.180 A reconciliation of shareholders' equity, with changes in the amounts of net assets on a historical cost/constant dollar basis and current cost/constant dollar basis, although not required by this section, acts as a check on the arithmetical accuracy of the calculations. [The reconciliation is presented in Exhibit 180A.]

Exhibit 180A

Changes in Shareholders' Equity during 19X9 in Average 19X9 Dollars

	(000s)			
	Source Paragraph	Historical Cost/ Average 19X9 Dollars	Source Paragraph	Current Cost/ Average 19X9 Dollars
Equity at January 1, 19X9				
Inventory	(.167)	C$ 58,907	(.175)	C$ 60,179
Property, plant, and equipment—net	(.181)	53,678	(.177)	76,884
Net monetary items	(.174)	(57,067)	(.174)	(57,067)
		55,518		79,996
Loss from continuing operations	(149A)	(2,514)	(149A)	(8,908)
Dividends	(.162)	(3,000)	(.162)	(3,000)
Gain from decline in purchasing power of net monetary liabilities	(.174)	7,729	(.174)	7,729
Excess of increase in specific prices over increase in the general price level			(.179)	5,649
		C$ 57,733		C$ 81,466
Equity at December 31, 19X9				
Inventory	(.166)	C$ 58,523	(.175)	C$ 59,602
Property, plant, and equipment—net	(171A)	54,548	(.177)	77,202
Net monetary items	(.174)	(55,338)	(.174)	(55,338)
		C$ 57,733		C$ 81,466

[FAS33, ¶238]

.181 Historical cost/constant dollar property, plant, and equipment at December 31, 19X8 in average 19X9 dollars [are as follows:]

	(000s)		
Date of Acquisition	**Historical Cost/ Constant Dollars***	**Percent Depreciated**	**Accumulated Depreciation**
19X2	C$ 82,983	70	C$58,088
19X3	7,478	60	4,487
19X4	6,852	50	3,426
19X5	6,478	40	2,591
19X6	6,085	30	1,826
19X7	5,652	20	1,130
19X8	10,776	10	1,078
Totals	C$126,304		C$72,626
Accumulated depreciation	72,626		
Net property, plant, and equipment at December 31, 19X8 carried to paragraph .180	C$ 53,678		

*Refer to Exhibit 171A. [FAS33, ¶239]

.182 Restated amounts [are as follows:]

Summary of Amounts Restated in Average 19X9 Dollars

(000s)

	Source Paragraph	Historical Cost/ Constant Dollars	Source Paragraph	Current Cost/ Information
Cost of goods sold	(.167)	C$204,384	(.168)	C$205,408
Depreciation expense	(171A)	C$ 14,130	(.172)	C$ 19,500
Purchasing power gain on net monetary items	(.174)	C$ 7,729	(.174)	C$ 7,729
Increase in current cost of inventories			(.176)	C$ 831
Increase in current cost amount of property, plant, and equipment			(.178)	C$ 4,818
Inventory	(.166)	C$ 58,523	(.175)	C$ 59,602
Property, plant, and equipment—net	(171A)	C$ 54,548	(.177)	C$ 77,202

[FAS33, ¶240]

Measurements for a Regulated Enterprise

.183 [Paragraphs .183 and .184 discuss the measurement of expenses by regulated enterprises. It is assumed that] an enterprise has property, plant, and equipment measured at $10,000 at historical cost in nominal dollars at the beginning of the year (and no other assets and no liabilities). It is permitted to set its prices at a level that will result in income, on a historical cost/nominal dollar basis, equal to 15 percent of net assets, that is, $1,500. Assets were purchased at various past dates and have varying lives. Depreciation for the year and asset values at the beginning and end of the year are as follows:

	Depreciation	Assets at Beginning of Year	Assets at End of Year
Historical cost in nominal dollars	$2,000	$10,000	$ 8,000
Historical cost in constant dollars	2,800	13,000	11,500
Current cost	4,000	18,000	16,700
Recoverable amount	3,500	10,000	8,000

[FAS33, ¶175]

.184 It is assumed that recoverable amounts of assets are equal to historical costs in nominal dollars although that equality does not always hold because, for example, the allowed rate of return may be higher or lower than the appropriate discount rate. It is also assumed for simplicity that all sales are made and expenses incurred at the end of the year. The rate of inflation is 10 percent per year. Computations of income from continuing operations based on the alternative measures of expenses and of related changes in current cost amounts of assets would run as follows, in end-of-year dollars:

	Historical Cost in Nominal Dollars	Historical Cost in Constant Dollars	Current Cost
Sales revenues less expenses	$3,500	$3,500	$3,500
Depreciation expense	(2,000)	(2,800)	(4,000)
Reduction of historical cost to lower recoverable amount		(200)	
Income from continuing operations	$1,500	$ 500	$ (500)
Increase in current cost amounts, net of inflation			$1,000

The increase in shareholders' equity, measured in constant dollars, is $500 (assets at the end of the year $11,500 = cash $3,500 plus plant $8,000—less assets at the beginning of the year $10,000 × 110/100). The current cost computations divide this amount between income from continuing operations and the increase in current cost amounts of assets. [FAS33, ¶175]

The Consumer Price Index

.185 The table in Exhibit 185A is the official Department of Labor Consumer Price Index—CPI(U), U.S. City Average, All Items (1967 = 100). This table includes monthly indexes and the average index for the year from 1913. Monthly updates to the table are published in the United States Department of Labor, Bureau of Labor Statistics, *News*. [FAS33, ¶241]

Exhibit 185A

Consumer Price Index
All Urban Consumers—(CPI-U)
U.S. City Average
All Items
(1967 = 100)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Avg.
1913	29.4	29.3	29.3	29.4	29.2	29.3	29.6	29.8	29.9	30.1	30.2	30.1	29.7
1914	30.1	29.8	29.7	29.4	29.6	29.8	30.1	30.5	30.6	30.4	30.5	30.4	30.1
1915	30.3	30.1	29.8	30.1	30.2	30.3	30.3	30.3	30.4	30.7	30.9	31.0	30.4
1916	31.3	31.3	31.6	31.9	32.0	32.4	32.4	32.8	33.4	33.8	34.4	34.6	32.7
1917	35.0	35.8	36.0	37.6	38.4	38.8	38.4	39.0	39.7	40.4	40.5	41.0	38.4
1918	41.8	42.2	42.0	42.5	43.3	44.1	45.2	46.0	47.1	47.9	48.7	49.4	45.1
1919	49.5	48.4	49.0	49.9	50.6	50.7	52.1	53.0	53.3	54.2	55.5	56.7	51.8
1920	57.8	58.5	59.1	60.8	61.8	62.7	62.3	60.7	60.0	59.7	59.3	58.0	60.0
1921	57.0	55.2	54.8	54.1	53.1	52.8	52.9	53.1	52.5	52.4	52.1	51.8	53.6
1922	50.7	50.6	50.0	50.0	50.0	50.1	50.2	49.7	49.8	50.1	50.3	50.5	50.2
1923	50.3	50.2	50.4	50.6	50.7	51.0	51.5	51.3	51.6	51.7	51.8	51.8	51.1
1924	51.7	51.5	51.2	51.0	51.0	51.0	51.1	51.0	51.2	51.4	51.6	51.7	51.2
1925	51.8	51.6	51.7	51.6	51.8	52.4	53.1	53.1	52.9	53.1	54.0	53.7	52.5
1926	53.7	53.5	53.2	53.7	53.4	53.0	52.5	52.2	52.5	52.7	52.9	52.9	53.0
1927	52.5	52.1	51.8	51.8	52.2	52.7	51.7	51.4	51.7	52.0	51.9	51.8	52.0
1928	51.7	51.2	51.2	51.3	51.6	51.2	51.2	51.3	51.7	51.6	51.5	51.3	51.3
1929	51.2	51.1	50.9	50.7	51.0	51.2	51.7	51.9	51.8	51.8	51.7	51.4	51.3
1930	51.2	51.0	50.7	51.0	50.7	50.4	49.7	49.4	49.7	49.4	49.0	48.3	50.0

1931	47.6	46.9	46.6	46.3	45.8	45.3	45.2	45.1	44.9	44.6	44.1	43.7	45.6
1932	42.8	42.2	42.0	41.7	41.1	40.8	40.8	40.3	40.1	39.8	39.6	39.2	40.9
1933	38.6	38.0	37.7	37.6	37.7	38.1	39.2	39.6	39.6	39.6	39.6	39.4	38.8
1934	39.6	39.9	39.9	39.8	39.9	40.0	40.0	40.1	40.7	40.4	40.3	40.2	40.1
1935	40.8	41.1	41.0	41.4	41.2	41.1	40.9	40.9	41.1	41.1	41.3	41.4	41.1
1936	41.4	41.2	41.0	41.0	41.0	41.4	41.6	41.9	42.0	41.9	41.9	41.9	41.5
1937	42.2	42.3	42.6	42.8	43.0	43.1	43.3	43.4	43.8	43.6	43.3	43.2	43.0
1938	42.6	42.2	42.2	42.4	42.2	42.2	42.3	42.2	42.2	42.0	41.9	42.0	42.2
1939	41.8	41.6	41.5	41.4	41.4	41.4	41.4	41.4	42.2	42.0	42.0	41.8	41.6
1940	41.7	42.0	41.9	41.9	42.0	42.1	42.0	41.9	42.0	42.0	42.0	42.2	42.0
1941	42.2	42.2	42.4	42.8	43.1	43.9	44.1	44.5	45.3	45.8	46.2	46.3	44.1
1942	46.9	47.3	47.9	48.2	48.7	48.8	49.0	49.3	49.4	49.9	50.2	50.6	43.8
1943	50.6	50.7	51.5	52.1	52.5	52.4	52.0	51.8	52.0	52.2	52.1	52.2	51.8
1944	52.1	52.0	52.0	52.3	52.5	52.6	52.9	53.1	53.1	53.1	53.1	53.3	52.7
1945	53.3	53.2	53.2	53.3	53.7	54.2	54.3	54.3	54.1	54.1	54.3	54.5	53.9
1946	54.5	54.3	54.7	55.0	55.3	55.9	59.2	60.5	61.2	62.4	63.9	64.4	58.5
1947	64.4	64.3	65.7	65.7	65.5	66.0	66.6	67.3	68.9	68.9	69.3	70.2	66.9
1948	71.0	70.4	70.2	71.2	71.7	72.2	73.1	73.4	73.4	73.1	72.6	72.1	72.1
1949	72.0	71.2	71.4	71.5	71.4	71.5	71.0	71.2	71.5	71.1	71.2	70.8	71.4
1950	70.5	70.3	70.6	70.7	71.0	71.4	72.1	72.7	73.2	73.6	73.9	74.9	72.1
1951	76.1	77.0	77.3	77.4	77.7	77.6	77.7	77.7	78.2	78.6	79.0	79.3	77.8
1952	79.3	78.8	78.8	79.1	79.2	79.4	80.0	80.1	80.0	80.1	80.1	80.0	79.5
1953	79.8	79.4	79.6	79.7	79.9	80.2	80.4	80.6	80.7	80.9	80.6	80.5	80.1
1954	80.7	80.6	80.5	80.3	80.6	80.7	80.7	80.6	80.4	80.2	80.3	80.1	80.5
1955	80.1	80.1	80.1	80.1	80.1	80.1	80.4	80.2	80.5	80.5	80.6	80.4	80.2

Source: U.S. Department of Labor, Room 1539, Bureau of Labor Statistics, Washington, D.C. 20212. The CPI Detailed Report may be ordered from the Superintendent of Documents U.S. Government Printing Office, Washington, D.C. 20402. The Library of Congress Catalog number is 74-647019.

Exhibit 185A (continued)

Consumer Price Index
All Urban Consumers—(CPI-U)
U.S. City Average
All Items
(1967 = 100)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Avg.
1956	80.3	80.3	80.4	80.5	80.9	81.4	82.0	81.9	82.0	82.5	82.5	82.7	81.4
1957	82.8	83.1	83.3	83.6	83.8	84.3	84.7	84.8	84.9	84.9	85.2	85.2	84.3
1958	85.7	85.8	86.4	86.6	86.6	86.7	86.8	86.7	86.7	86.7	86.8	86.7	86.6
1959	86.8	86.7	86.7	86.8	86.9	87.3	87.5	87.4	87.7	88.0	88.0	88.0	87.3
1960	87.9	88.0	88.0	88.5	88.5	88.7	88.7	88.7	88.8	89.2	89.3	89.3	88.7
1961	89.3	89.3	89.3	89.3	89.3	89.4	89.8	89.7	89.9	89.9	89.9	89.9	89.6
1962	89.9	90.1	90.3	90.5	90.5	90.5	90.7	90.7	91.2	91.1	91.1	91.0	90.6
1963	91.1	91.2	91.3	91.3	91.3	91.7	92.1	92.1	92.1	92.2	92.3	92.5	91.7
1964	92.6	92.5	92.6	92.7	92.7	92.9	93.1	93.0	93.2	93.3	93.5	93.6	92.9
1965	93.6	93.6	93.7	94.0	94.2	94.7	94.8	94.6	94.8	94.9	95.1	95.4	94.5
1966	95.4	96.0	96.3	96.7	96.8	97.1	97.4	97.9	98.1	98.5	98.5	98.6	97.2
1967	98.6	98.7	98.9	99.1	99.4	99.7	100.2	100.5	100.7	101.0	101.3	101.6	100.0
1968	102.0	102.3	102.8	103.1	103.4	104.0	104.5	104.8	105.1	105.7	106.1	106.4	104.2
1969	106.7	107.1	108.0	108.7	109.0	109.7	110.2	110.7	111.2	111.6	112.2	112.9	109.8
1970	113.3	113.9	114.5	115.2	115.7	116.3	116.7	116.9	117.5	118.1	118.5	119.1	116.3

	J	F	M	A	May	Jun	Jul	Aug	Sep				
1971	119.2	119.4	119.8	120.2	120.8	121.5	121.8	122.1	122.2	122.4	122.6	123.1	121.3
1972	123.2	123.8	124.0	124.3	124.7	125.0	125.5	125.7	126.2	126.6	126.9	127.3	125.3
1973	127.7	128.6	129.8	130.7	131.5	132.4	132.7	135.1	135.5	136.6	137.6	138.5	133.1
1974	139.7	141.5	143.1	143.9	145.5	146.9	148.0	149.9	151.7	153.0	154.3	155.4	147.7
1975	156.1	157.2	157.8	158.6	159.3	160.6	162.3	162.8	163.6	164.6	165.6	166.3	161.2
1976	166.7	167.1	167.5	168.2	169.2	170.1	171.1	171.9	172.6	173.3	173.8	174.3	170.5
1977	175.3	177.1	178.2	179.6	180.6	181.8	182.6	183.3	184.0	184.5	185.4	186.1	181.5
1978	187.2	188.4	189.8	191.5	193.3	195.3	196.7	197 8	199.3	200.9	202.0	202.9	195.4
1979	204.7	207.1	209.1	211.5	214.1	216.6	218.9	221.1	[223.4]	[225.4]	[227.5]	[229.9]	[217.4]
1980	[233.2]	[236.4]	[239.8]	[242.5]	[244.9]	[247.6]	[247.8]	[249.4]	[251.7]	[253.9]	[256.2]	[258.4]	[246.8]
1981	[260.5]	[263.2]	[265.1]	[266.8]	[269.0]	[271.3]	[274.4]	[276.5]	[279.3]	[279.9]	[280.7]	[281.5]	[272.4]
1982	[282.5]	[283.4]	[283.1]	284.3	287.1	290.6	292.2	292.8	293.3	294.1			

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[FAS33, ¶41]
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Source: U.S. Department of Labor, Room 1539, Bureau of Labor Statistics, Washington, D.C. 20212. The CPI Detailed Report may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The Library of Congress Catalog number is 74-647019.

Glossary

.401 Constant dollar accounting. A method of reporting financial statement elements in dollars, each of which has the same (that is, constant) general purchasing power. This method of accounting is often described as accounting in units of general purchasing power or as accounting in units of current purchasing power. [FAS33, ¶22]

.402 Current cost accounting. A method of measuring and reporting assets and expenses associated with the use or sale of assets at their current cost or lower recoverable amount at the balance sheet date or at the date of use or sale. [FAS33, ¶22]

.403 Current cost/constant dollar accounting. A method of accounting based on measures of current cost or lower recoverable amount in terms of dollars, each of which has the same general purchasing power. [FAS33, ¶22]

.404 Current cost/nominal dollar accounting. A method of accounting based on measures of current cost or lower recoverable amount without restatement into units, each of which has the same general purchasing power. [FAS33, ¶22]

.405 Historical cost/constant dollar accounting. A method of accounting based on measures of historical prices in dollars, each of which has the same general purchasing power. [FAS33, ¶22]

.406 Historical cost/nominal dollar accounting. The generally accepted method of accounting, used in the primary financial statements, based on measures of historical prices in dollars without restatement into units, each of which has the same general purchasing power. [FAS33, ¶22]

.407 Income from continuing operations. Income after applicable income taxes but excluding the results of discontinued operations, extraordinary items, and the cumulative effect of accounting changes. [FAS33, ¶22]

.408 **Income-producing real estate.** Properties that meet all of the following criteria:

a. Cash flows can be directly associated with a long-term leasing agreement with unaffiliated parties.
b. The property is being operated. (It is not in a construction phase.)
c. Future cash flows from the property are reasonably estimable.
d. Ancillary services are not a significant part of the lease agreement. [FAS41, ¶6]

Hotels, which have occupancy rates and related cash flows that may fluctuate to a relatively large extent, do not meet the criteria for income-producing real estate. [FAS41, ¶24]

.409 **Mineral resource assets.** Assets that are directly associated with and derive value from all minerals that are extracted from the earth. Such minerals include oil and gas, ores containing ferrous and nonferrous metals, coal, shale, geothermal steam, sulphur, salt, stone, phosphate, sand, and gravel. Mineral resource assets include mineral interests in properties, completed and uncompleted wells, and related equipment and facilities and other facilities required for purposes of extraction (refer to Section Oi5, paragraph .103). This definition does not cover support equipment because that equipment is included in property, plant, and equipment. [FAS39, ¶5]

.410 **Monetary asset.** Money or a claim to receive a sum of money the amount of which is fixed or determinable without reference to future prices of specific goods or services. [FAS33, ¶47]

.411 **Monetary liability.** An obligation to pay a sum of money the amount of which is fixed or determinable without reference to future prices of specific goods and services. [FAS33, ¶47]

.412 **Motion picture films.** All types of films and videotapes and disks, including features, television specials, series, and cartoons that are:

a. Exhibited in theaters or
b. Licensed for exhibition by individual television stations, groups of stations, networks, cable television systems, or other means or
c. Licensed for commercial reproduction (for example, for the home viewing market) [FAS46, ¶7]

.413 **Net assets (shareholders' equity).** If an enterprise presents the minimum information required it shall measure net assets (that is, shareholders' equity) for the purposes of the five-year summary:

a. On historical cost/constant dollar basis at the amount reported in its primary financial statements adjusted for the difference between the historical cost/nominal dollar amounts of inventory and property, plant, and equipment
b. On a current cost basis at the amount reported in its primary financial statements, adjusted for the difference between the historical cost/nominal dollar amounts and the current cost or lower recoverable amounts of inventory and property, plant, and equipment and restated in constant dollars in accordance with paragraph .146.

If an enterprise elects to present comprehensive supplementary financial statements on a current cost/constant dollar basis, or on a historical cost/constant dollar basis, it may report the amount of net assets in the five-year summary in accordance with the comprehensive statements. [FAS33, ¶66]

.414 **Net realizable value.** The amount of cash, or its equivalent, expected to be derived from sale of an asset net of costs required to be incurred as a result of the sale. It shall be considered as a measurement of an asset only when the asset concerned is about to be sold. [FAS33, ¶63]

.415 **Probable mineral reserves in extractive industries other than oil and gas.** The estimated quantities of commercially recoverable reserves that are less well-defined than proved reserves and that may be estimated or indicated to exist on the basis of geological, geophysical, and engineering data. [FAS39, ¶5]

.416 **Proved mineral reserves in extractive industries other than oil and gas.**[401] The estimated quantities of commercially recoverable reserves that, on the basis of geological, geophysical, and engineering data, can be demonstrated with a reasonably high degree of certainty to be recoverable in the future from known mineral deposits by either primary or improved recovery methods. [FAS39, ¶5]

.417 **Public enterprise.** A business enterprise (a) whose debt or equity securities are traded in a public market on a domestic stock exchange or in the domestic over-the-counter market (including securities quoted only locally or regionally) or (b) that is required to file financial statements with the Securities and Exchange Commission. An enterprise is considered to be a public enterprise as soon as its financial statements are issued in preparation for the sale of any class of securities in a domestic market. [FAS33, ¶22]

.418 **Recoverable amount.** Current worth of the net amount of cash expected to be recoverable from the use or sale of an asset. [FAS33, ¶62]

.419 **Unprocessed natural resources.** Mineral resource assets, timberlands, and growing timber. [FAS39, ¶5]

.420 **Value in use.** The net present value of future cash flows (including the ultimate proceeds of disposal) expected to be derived from the use of an asset by the enterprise. It shall be considered as a measurement of an asset only when immediate sale of the asset concerned is not intended. Value in use shall be estimated by discounting expected future cash flows at an appropriate discount rate that allows for the risk of the activities concerned. [FAS33, ¶63]

[401] The various classes of oil and gas reserves are defined in Section Oi5. [FAS39, ¶5, fn1]

Supplemental Guidance

Applicability to Certain Brokers and Dealers in Securities

.501 *Question*—Should closely held brokers and dealers in securities that file financial statements with the Securities and Exchange Commission (SEC) be considered nonpublic enterprises for purposes of applying this section? [FTB79-8, ¶1]

.502 *Background*—This section states that an enterprise that is required to file financial statements with the SEC is a public enterprise. [FTB79-8, ¶4]

.503 All security brokers and dealers registered with the SEC must file complete sets of financial statements with the SEC for use by the SEC's Division of Market Regulation for regulatory purposes, whether they are closely held or publicly held. Although the statement of financial condition filed by a broker-dealer must be available for public inspection, the income statement and statement of changes in financial position may be treated as confidential if so requested by the broker-dealer. A publicly held broker-dealer that is subject to Sections 12 and 13 of the Securities Exchange Act of 1934 must, in addition, file a complete set of financial statements and various forms with the SEC in the same manner as is required of other publicly held enterprises subject to those sections of the 1934 Act. [FTB79-8, ¶5]

.504 *Response*—The fact that financial statements are required to be filed for broker-dealer regulatory purposes with the SEC does not make an otherwise nonpublic enterprise public for purposes of this section. Thus, the definition of a public enterprise excludes closely held broker-dealers that are required to file financial statements with the SEC only for use by its Division of Market Regulation, principally because the broker-dealer can cause a significant portion of those financial statements (that is, the income statement and statement of changes in financial position) to be unavailable for public inspection by requesting confidential treatment. [FTB79-8, ¶6]

Classification as Monetary or Nonmonetary Items

.505 For purposes of determining a purchasing power gain or loss on net monetary items, the following items that are not listed in paragraph .154 should be classified as follows:

	Monetary	Nonmonetary
Trading account investments in fixed-income securities owned by banks, investment brokers, and others		X
The unguaranteed residual value of property owned by a lessor and leased under direct financing, sales-type, and leveraged leases	Refer to discussion.	
Commodity inventories whose values are hedged by futures contracts whose contract amounts have not been recorded in the financial statements	Refer to discussion.	
Portion of the carrying amount of lessors' assets leased under noncancelable operating leases that represent claims to fixed sums of money		X
Vested pension benefits in excess of fund assets or other accrued pension obligations, recorded in a business combination accounted for by the purchase method		X
Investment tax credits that are deferred by a lessor as part of the unearned income of a leveraged lease	Refer to discussion.	
Minority interests in consolidated subsidiaries		X
Capital stock of the enterprise or of its consolidated subsidiaries subject to mandatory redemption at fixed amounts		X

[FTB 81-4, ¶4]

.506 *Trading account investments in fixed-income securities owned by banks, investment brokers, and others.* Trading account securities are "securities of all types carried . . . in a dealer trading account (or accounts) that are held principally for resale to customers."[501] The predominant practice by banks is to carry these securities at the lower of cost or market, although a substantial minority carry them at market value. Trading account investments include both fixed-income securities (for example, nonconvertible preferred stock, convertible bonds, and other bonds) and other securities (for example, common stock). Usually, trading account securities are held for extremely short periods of time—sometimes for only a few hours. Frequently, the enterprise buys and sells the securities expecting to make a profit on the difference between dealer and retail, or bid and asked prices, rather than on the price changes during the period securities are held. However, the prices of the securities change with market forces. [FTB81-4, ¶5]

.507 Trading account investments in fixed-income securities are not "claims to receive a sum of money . . . which is fixed or determinable" (refer to paragraph .125). The market prices of the securities might and frequently do change while the securities are held. Paragraph .151 indicates that, generally, nonconvertible and nonparticipating preferred stock, convertible bonds that the market values primarily as bonds rather than as stocks, and nonconvertible bonds should be classified as monetary items. However, those classifications were based, in part, on the assumption that those securities would be held for long periods, if not to maturity. Trading account investments, on the other hand, are held for shorter periods and so their value depends much less heavily on the general purchasing power of money and depends more on the specific values of the securities. Therefore, trading account investments in fixed-income securities should be classified as nonmonetary. [FTB81-4, ¶6]

.508 *The unguaranteed residual value of property owned by a lessor and leased under direct financing, sales-type, and leveraged leases.* The unguaranteed residual value is included with the minimum lease payments, at present value, in the net investment in the lease. [FTB81-4, ¶7]

.509 The minimum lease payments are monetary items because they are claims to fixed sums of money. The residual value is not a claim to a fixed sum of money, so it is a nonmonetary item. Some assets and liabilities, of which the net investment in the lease is a good example, are combinations of claims to (or obligations of) fixed amounts and claims to (or obligations of) variable amounts. Ideally, those claims should be separated for purposes of classifying them as monetary and nonmonetary. However, if the information necessary to make the separation is not available or is impracticable to obtain, such items need not be divided into monetary and nonmonetary components and would be classified according to their

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[501]Office of the Federal Register, *Code of Federal Regulations*, vol. 12 (Washington, D.C.: U.S. Government Printing Office, 1980), p. 217. [FTB81-4, ¶5, fn1]

dominant element. If the net investment in leases is principally claims to fixed amounts, it would be classified as monetary; it would be classified as nonmonetary if it is principally claims to residuals. [FTB81-4, ¶8]

.510 *Commodity inventories whose values are hedged by futures contracts whose contract amounts have not been recorded in the financial statements.* Many enterprises hedge commodity inventories (such as grain or metals). *Selling hedges* are designed to provide a degree of assurance that a decline in the price of the commodity would be offset by an increase in the value of the hedge contract. Selling hedges thus help protect the value of the inventory that is hedged. [FTB81-4, ¶9]

.511 There are certain similarities between inventories that are hedged and inventories that are used on or committed to a contract. In each case, the risk of gain or loss due to price changes before the inventory is sold is largely or entirely eliminated. Paragraph .120 states that "inventories may need to be reclassified as monetary assets at the date of the use on or commitment to a contract. . . ." To the extent that hedges fix the value of an inventory in dollars, the inventory effectively becomes a monetary item. However, in some cases, hedging positions may not be identifiable with specific inventory positions. In those cases, the inventory should be classified as nonmonetary. [FTB81-4, ¶10]

.512 Some inventory may be hedged and other inventory not hedged. As discussed in paragraph .509, in those cases the ideal solution would be to separately classify the hedged and nonhedged portions. However, if the information is not available or is impracticable to obtain, the enterprise would classify the entire inventory according to its dominant element as either monetary or nonmonetary. [FTB81-4, ¶11]

.513 *Portion of the carrying amount of lessors' assets leased under noncancelable operating leases that represent claims to fixed sums of money.* These assets are carried at depreciated historical cost under generally accepted accounting principles and are classified with or near property, plant, and equipment. Paragraph .151 indicates that property, plant, and equipment are nonmonetary. [FTB81-4, ¶12]

.514 The classification of a lease as an operating lease under Section L10, "Leases," indicates that the lease has not transferred substantially all of the benefits and risks incident to ownership to the lessee. Thus, the economic significance of the asset continues to depend heavily on the value of the future lease rentals, residual values, and associated costs. Therefore, an asset subject to an operating lease should be classified as nonmonetary. [FTB81-4, ¶13]

.515 *Vested pension benefits in excess of fund assets or other accrued pension obligations, recorded in a business combination accounted for by the purchase method.* Paragraph .151 indicates that fixed amounts of accrued pension obligations that are payable to a fund are monetary; all other accrued pension obligations are nonmonetary. Other liabilities mentioned in paragraph .151 are monetary, except those to be satisfied by providing goods and services (for example, obligations under warranties) and accrued vacation pay if it is to be paid at wage rates as of the vacation dates and if those rates may vary from rates in effect at the balance sheet date. [FTB81-4, ¶14]

.516 Under Section B50, "Business Combinations," vested pension benefits in excess of fund assets sometimes are recorded as liabilities on the occurrence of business combinations treated as purchases. The amounts may be similar to accrued vacation pay that is to be paid at rates in effect as of the vacation dates—the pension benefits to be paid also may depend on future salary and wage rates, dates of retirement, and future changes in pension plan benefits. Therefore, vested pension benefits in excess of fund assets should be classified as nonmonetary items. [FTB81-4, ¶15]

.517 *Investment tax credits that are deferred by a lessor as part of the unearned income of a leveraged lease.* Under Section L10, the deferred investment tax credit related to the leased asset is subtracted from rentals receivable and estimated residual value as part of the calculation of the lessor's investment in the leveraged lease. The investment, including the deferred investment tax credit related to the leveraged lease, is presented as one amount in the balance sheet. As indicated in paragraph .509, the investment in a leveraged lease would be classified as monetary or nonmonetary according to its dominant element. [FTB81-4, ¶16]

.518 As indicated in paragraph .151, a deferred investment tax credit should be classified as nonmonetary but, if it is part of an investment in a leveraged lease and if the information necessary to separate its elements is not available or is impracticable to obtain, the investment would be classified according to its dominant element. [FTB81-4, ¶17]

.519 *Minority interests in consolidated subsidiaries.* The interests of minority shareholders in the earnings and equity of subsidiaries are, from the consolidated entity's point of view, claims that are not fixed. Rather, they are residuals that will vary based on the subsidiary's earnings, dividends, and other transactions affecting its equity and so are nonmonetary. (Refer to paragraph .520 as to classification of capital stock of the enterprise or of its consolidated subsidiaries subject to mandatory redemption at fixed amounts.) [FTB81-4, ¶18]

.520 *Capital stock of the enterprise or of its consolidated subsidiaries subject to mandatory redemption at fixed amounts.* Such securities are claims of the stockholders to a fixed number of dollars and therefore are monetary. Classification as a monetary item called for in this section is only for purposes of determining a purchasing power gain or loss. This section does not address how such securities should be classified in balance sheets or the accounting for dividends on those securities. [FTB81-4, ¶19]

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